



## Serbs again warned of Nato strikes

MR Warren Christopher, the US secretary of state, has again warned the Serbian president, Mr Slobodan Milosevic, of possible Nato air strikes to halt any Serb effort to strangle the Bosnian capital, Sarajevo, the State Department said yesterday. Reuter reports from Washington.

The department's spokesman, Mr Mike McCurry, said the Serbs had been warned of the "consequences of that strangulation". Asked what those consequences were, he referred to a Nato communiqué in August that warned of possible air strikes against Serbian guns.

In Sarajevo yesterday, United Nations officials complained that organised Muslim disturbances were disrupting their operations in central Bosnia and negotiated for the return of two stolen armoured vehicles.

The Bosnian capital was hit by renewed shelling and fighting between the three warring sides in the civil war was reported across the republic.

Peacekeepers in central Bosnia said women and children in Muslim-controlled Zenica blocked a UN convoy and looted fuel from a peacekeeping patrol in what UN sources called a systematic effort to disrupt their operations.

"We believe we are looking at organised civil disturbances," said a UN source in Vitez, about 12km from Zenica, where the incident took place. "Clearly someone wishes to make a point. We're trying to find out what that point is."

The UN convoy aborted its mission and returned to a warehouse after about 150 women and children blocked its route out of Zenica. A similar crowd surrounded and looted a UN Land Rover and trailer in the early afternoon, stealing nine containers of fuel.

The UN said an "uncontrolled" Bosnian army unit held up two armoured personnel carriers carrying nine UN soldiers outside Sarajevo over the weekend. They let the soldiers go after a few hours but kept the APCs and other equipment.

General Francis Brigueumont, commander of UN troops in Bosnia, met Bosnian army commander General Rasim Delic yesterday to complain and demand the return of the vehicles.

International mediators trying to come up with a peaceful solution to the war were working on a new "global approach", Mr Boutros Boutros Ghali, UN secretary-general, said. Mr Boutros Ghali told the French daily Le Monde he met the UN mediator, Mr Thorvald Stoltenberg, on October 9 to discuss all options in case a peace plan for Bosnia failed and the situation deteriorated in Croatia and Serbia.

"We worked on the idea of a global approach and a new international conference following the London conference," he said, referring to a meeting in London last November which gave Mr Stoltenberg and Lord Owen their negotiating mandate.

Diplomats said last week a global approach would be based on the premise that the west might have a greater chance of extricating itself from the Yugoslav quagmire if it tried to solve all the region's problems together rather than tackling them piecemeal.

The UN leader said the plan to divide Bosnia into three ethnic mini-states was not dead. "No, nothing is buried," he said. "We must be very flexible, very pragmatic. Suppose that tomorrow the parties in ex-Yugoslavia suddenly come to agreement. One can never know."

But there was no sign of any such agreement.

Muslims, who have declared autonomy in the north-west Bosnia's Bihać enclave, yesterday claimed that government forces launched an attack on Kudić, a village 25km south of the rebel stronghold of Velika Kladusa.

## Walesa names rural leader as PM

By Christopher Bobinski in Warsaw

POLAND'S President Lech Walesa yesterday asked Mr Waldemar Pawlak, the 34-year-old leader of the Polish Peasant party (PSL), to form the next government following the resignation of Mr Hanna Suchocka, the outgoing prime minister.

The decision follows parliamentary elections on September 19, when the party won 15 per cent of the vote and the post-communist Left Democratic Alliance (SLD), its coalition partner, won 30 per cent. Together the two parties control 303 seats in the 460-member parliament.

Mrs Suchocka's government will continue in a caretaker role until Mr Pawlak forms a cabinet and it is confirmed by parliament.

Mr Pawlak is expected to complete negotiations with the Alliance on the make-up of the next cabinet and to present the

results to parliament's next session on October 21. He will then seek parliamentary approval for his nomination.

President Walesa has a constitutional right to oversee the posts of minister of interior, defence and foreign affairs and is thought to have won assurances in the weeks since the election that his candidates will be nominated in these ministries. These are thought to include Mr Andrzej Olechowski, a former finance minister as foreign minister, and Mr Andrzej Milczanowski, the incumbent as interior minister.

For the rest, the PSL wants to have one of its members controlling one of the government's economic posts, which include finance, trade and industry, foreign trade or privatisation, leaving the SLD with the rest. Mr Walesa had expressed doubts about Mr Pawlak's ability to govern with what the president sees as an unbalanced and unstable parliament.



Polish prime minister-designate Waldemar Pawlak leaving his meeting with President Walesa

The imminence of elections prompts a scramble to line up party support

## Russian alliances form ahead of polls

By Leyla Boulton and Gillian Tett in Moscow

RUSSIA'S politicians are scrambling for alliances ahead of December's parliamentary elections whose outcome will be determined by access to the media, support from business, and the heavy hand of the government.

Reformers in the Russian government, members of which are allowed to run for parliament while preserving ministerial posts, have already produced two competing alliances through which they hope to produce a reform-minded parliament.

The bulk of the cabinet has swung its weight behind Russia's Choice, led by Mr Yegor Gaidar, the first deputy prime minister responsible for the economy. He is promising more radical reform.

But two young deputy prime ministers associated with the reforms of the past two years - Mr Sergei Shakhrai, responsible for regional issues, and Mr Alexander Shokhin, who

looks after foreign economic relations - have broken away to form a Russian Party of Unity and Agreement. They are advocating more gradual market reform and greater autonomy for Russia's restless regions.

There is little to distinguish this party's aims from a third alliance being organised by Mr Grigory Yavlinsky, the prominent economist who wants to become Russia's next president. The main difference is the latter's independence from the government.

Another independent group, which is closer to the radical economic platform of Russia's Choice, has been established by Mr Konstantin Borovoi, a prominent entrepreneur and founder of the Economic Freedom Party. But he has refused to join Russia's Choice, describing it as "a criminal restoration of the idea of a ruling party like the communist party once was".

Most Russian businessmen, who are the main source of independent finance for this

campaign, are still busy shopping around for their best buy, with some inclined to support several groups, just to be on the safe side.

As an aide to Mr Shakhrai puts it: "There is a sort of competition now between businesses to give money to parties. Many are helping all the democratic parties, hoping they will get someone of their calling elected."

Still unclear are the plans of the leaders of the so-called "centre", who have been tainted by their past alliance with former Vice-President Alexander Rutskoi. They are well-known figures such as Mr Yuri Skokov, former chief of the Russian Security Council, and Mr Arkady Volok, head of an important industrialists union. Mr Volok is today expected to announce an alliance with radicals such as Mr Anatoly Sobchak, mayor of St Petersburg, and Mr Gavril Popov, Moscow's ex-mayor.

One such alliance of odd bed-fellows was formed only yesterday, uniting Mr Victor

Aksuchits, who heads a Russian Christian democratic movement, and Mr Valery Zorkin, who was forced to resign as head of Russia's constitutional court.

A key test of the elections' legitimacy will be access to forces associated with the old parliament so that they are not driven underground and the new state duma's legitimacy is recognised by all.

The acknowledged leader of what is left of the Communist movement is Mr Gennady Zingarev, a moderate who was not involved in parliament's armed uprising. His Russian Communist party is expected to team up with the Russian Workers party, headed by Mr Boy Medvedev, a once-dissident Communist historian, and the Agrarian party, which has the support of Russia's powerful state farm lobby.

The main leader of the hardline nationalist movement is Mr Sergei Baburin, who unlike many colleagues who remained in the White House until the bitter end, has not

been arrested and has every intention of running for parliament.

The main handicap of the Communists and hardline nationalists - as illustrated by the banning of a Baburin news conference by a compliant International Press Club - will be limited access to the media.

The government has already closed the television programme 600 Seconds and hardline newspapers for instigating violence and anti-Semitism. It is also taking control of other media, in particular local newspapers and television once controlled by parliament and the local councils sympathetic to Mr Ruslan Khasbulatov, the jailed former parliamentary speaker.

Mr Mikhail Polokorenin, President Yeltsin's aide for the media, announced plans at the weekend to switch 2,400 local newspapers financed by the councils to "democratic" forces - a euphemism which can only mean local administrations controlled by Mr Yeltsin.

## EC delay on ending passport checks

By David Buchan in Paris

MINISTERS of the nine European Community signatories to the Schengen free travel pact yesterday agreed to delay removing systematic passport checks until February 1, chiefly because of technical problems with a giant police computer.

Mr Alain Lamassoure, France's EC affairs minister, who chaired the meeting in Paris, played down the two-month delay from the December 1 deadline which the Schengen signatories set earlier this year for ending routine controls on people travelling between their countries. "February 1 is virtually tomorrow, and there is nothing to stop preparatory measures coming into effect on December 1," he said.

But the minister admitted that internal French problems over political asylum were another cause for delay. One of the Schengen arrangements provides that, as a general rule, asylum-seekers can only apply for refuge in one state.

France's top court ruled in August that this infringed asylum rights enshrined in the constitution. However, the president and prime minister agreed on a compromise which has yet to be put in place.

France, Germany and the Benelux countries signed the agreement in 1990, and Italy, Spain, Portugal and Greece have subsequently signed.

## Romanian race violence fears

Amnesty International, the human rights organisation, has asked the Romanian government to investigate reports that local police participated in an outbreak of racial violence which left four dead in the ethnically-mixed province of Transylvania last month, writes, Virginia Marsh in Bucharest.

Amnesty says it has received one report that 45 armed policemen stood aside while two gypsy brothers were beaten to death by a crowd.

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# Italian leader acts over state security

## Çiller means business on state asset sales

Turkey's PM has staked a lot on privatisation, writes John Murray Brown

By Robert Graham in Rome

PRESIDENT Oscar Luigi Scalfaro took the unprecedented step last night of calling a special meeting of ministers and senior officials responsible for Italian state security to clarify the role of the intelligence services in a series of ill-explained incidents dating back to the 1970s.

His initiative highlights his concern about a spate of recent reports linking the intelligence services with attempts to destabilise Italian democracy.

Some of these reports, if true, would confirm the long-held suspicion that some security services members have been linked to organised crime.

Other reports appear designed to mislead and contain a whiff of farce. The self-proclaimed former mistress of General Franco Montecorone, head of Italy's rapid intervention force, has talked of dissident members of the military preparing a coup for next spring. She also claims to have met three months ago Mr Gianni Nardi, a well-known neo-fascist killed in a car crash in Majorca 17 years ago.

Apart from the prime minister, those called to the meeting included the defence, interior and finance ministers, the head of the joint chiefs of staff, leaders of the three services, plus the heads of the police, the carabinieri, and of domestic and military intelligence.

Mr Scalfaro was expected to issue a strong call to order and for a speedy clean-up of the

intelligence services. He was also likely to warn the military to stay out of politics following the controversy caused by a senior general this month attacking those who backed the populist Lombard League.

The government promised a shake-up of domestic intelligence in May following car bombings in Rome and Florence. Then, the Interior Ministry suspected organised crime and some members of the intelligence services were responsible. This suspicion was repeated after car bombs in Rome and Milan on July 28 and when the telephone failed mysteriously in the prime minister's office for three hours.

But the shake-up has been slow in the face of the evidence. Last December, Mr Bruno Contrada, the number three in domestic intelligence, was arrested and charged with colluding with the Mafia. Allegations of links with organised crime were made against General Francesco Delino, a key figure in the carabinieri.

Within the past six months at least 14 senior members of the domestic intelligence service have been arrested on charges of diverting L14bn (\$5.8m) to their private use. Then last week, Mr Augusto Maria Citali, the agency's head, was arrested for allegedly ordering the planting of explosives on a train.

Earlier this month the Defence Ministry announced the retirement of some 300 of the 1,500 officials in military intelligence.

THE success or failure of Mrs Tansu Çiller's promise to drive down inflation and stabilise the Turkish economy hinges in large part on the prime minister's radical privatisation plans.

With her True Path party (DYP) facing a leadership congress next month and with nationwide municipal elections in March, she is badly in need of some quick results.

Little has happened since privatisation was first set in motion in the mid-1980s, when minority stakes were sold in several state enterprises. Mrs Çiller's government wants to speed up the sale of the large state corporations and to sell majority holdings.

Strong economic growth, and a decisive political lead on the issue, is raising hopes that Turkey may now be about to address the problems of a state sector that comprises some 240 companies and absorbs about 30 per cent of Turkey's fixed capital investment.

Mrs Çiller, an academic economist who entered parliament in 1991, is staking her political reputation on scaling back the state sector. This, she believes, is the only way to curb Turkey's 70 per cent inflation, the issue on which the next election is certain to be fought.

The reluctance of the privatisation programme reflects mounting budget worries, but also concern that Turkey could lose out if a spate of asset sales across Europe soaks up international investor demand.

Mrs Çiller has still to convince her coalition partners, the Social Democratic Populists (SHP), some of whom still appear attached to the state economic principles on which their party was founded. But



Men of steel: Turkish workers erect reinforcing rods on an Istanbul construction site. The country's state steel holdings are up for sale, as are telecommunications, banking and oil refining concerns

as long as her public support continues, her advisers believe privatisation could acquire an unstoppable momentum, if she can just pull off one or two big sales in the next few months.

The broad objective is to reduce the burden on the budget, free up government resources, promote new efficiencies in the economy and give a leg-up to the capital markets. Turkey is pursuing a twin track strategy: the immediate sale of some of the better state concerns such as telecommunications and the petrol sector, and the introduction of the legal and social infrastructure necessary for disposing of big loss-makers such as the Zonguldak coal mining corporation.

After relying largely on homegrown advice, Ankara is turning to foreign expertise. The World Bank, which sent a privatisation team to Turkey in August, is considering financial assistance for the creation of a social safety net, without which the large job losses associated with privatisation would be politically difficult.

Mrs Çiller has warned of closures and redundancies. But given the current growth rate - gross national product rose by 12 per cent in the second quarter compared with the same period last year - Turkey should be able to absorb the

job losses.

Not everything is going her way, however. She faces union opposition because of feared unemployment and resistance from the industrial ministries for whom continued control over state companies is an important lever of patronage.

Her opponents already claim one scalp. Special decree powers granted to government in June and which have been used to bypass parliament on key economic legislation, have been overruled by the constitutional court.

The ruling is not itself retroactive, and therefore should not affect the decree splitting up the PTT postal and telecom-

munications monopoly to allow the more profitable telecoms arm to be sold. However it could slow reform.

In addition to telecommunications, the state assets on offer include oil refining and distribution, steel, and trade and banking operations. Many of the companies are considered eminently saleable. The Ereğli works on the Black Sea must be one of the few steel operations in Europe reporting increased profits.

The telecoms enterprise is making healthy profits, and is described by an industry observer as "one of the best prospects of any privatised telecoms company in Europe".

Ultimately, with other countries also unveiling privatisation plans, it is not just Turkey's disgruntled politicians Mrs Çiller has to convince. She must also assure foreign banks that this time Turkey means business on privatisation.

# Bonn savings face cities with 'financial disaster'

By Quentin Peel in Bonn

MORE than 1,000 mayors, lord mayors and council leaders from towns and cities throughout Germany descended on Bonn yesterday to protest at government savings plans, which they claim are driving them to financial disaster.

They warned of drastic cuts in spending on libraries, youth and sports clubs and theatres, which German citizens have come to take for granted.

The representatives of more than 7,000 towns and cities, with a combined population of more than 50m, called on the government to rethink its plans for cuts in social spending, which will transfer costs of up to DM65m (£2.4bn) a year by 1996 on to local budgets.

Mr Norbert Burger, lord mayor of Cologne, and president of the standing conference of German municipal authorities, charged the government with precipitating the "financial collapse" of many towns and cities.

Plans to cut unemployment pay and reduce the duration of benefits would inevitably force more people on to the basic provisions of social assistance, paid for by the local councils, he said. The only way to finance this would be by cuts in all other municipal services.

He accused Chancellor Helmut Kohl of refusing to listen to their plight, in spite of repeated efforts to seek a compromise. "It is our duty to tell you loudly and clearly: this is not the way to behave, Mr

Chancellor." Mr Burger declared to a storm of applause.

Mr Kohl was seeking to involve city councils in special programmes to counter violence and racism among young people, while was forcing councils to lower spending on youth clubs and culture, he said.

At the heart of the spending crisis is the simultaneous pressure of rising unemployment and the switch of public spending priorities from western Germany to the new states in the east.

From the government's side, there was barely a sign of movement. Mr Horst Wafenschmidt, state secretary in the interior ministry, was adamant that all must cut back in the current spending squeeze.

# Germany rebuts criticism of its waste recycling laws

By Alison Meitland

GERMANY yesterday defended its controversial waste recycling legislation, calling criticism from other EC states "one-sided". Strict German recycling laws have been attacked for producing more waste packaging than the country can process, resulting in large exports of waste paper and plastic.

Britain, France, Ireland, Italy, Luxembourg, the Netherlands and Spain have all complained that their young recycling industries are being so overwhelmed by subsidised German exports that domestic waste no longer has an outlet.

Mr Clemens Stroetmann, state secretary in the German Environment Ministry, told an FT conference in London on international packaging and the environment that the criticism failed to take account of imports of raw materials into Germany. The country used around 16m tonnes of paper a year, of which more than

8m tonnes were imported. "It is almost impossible to ensure the environmentally-sound disposal of used paper levels in Germany using our own national capacity alone."

He denied that the export of valuable waste raw material was subsidised, either by municipal authorities or by the financially troubled national recycling scheme, DSD.

"Valuable raw materials are collected in a system financed by ordinary citizens, either in the form of refuse charges to the municipal authorities or in the prices of the products they buy, which of course also reflect the costs of the green dot (the DSD system). This financing, however, is for actual services, the setting-up and operation of collection systems," he said.

The recycling scheme came under attack from Mr David Veitch, vice-president of public affairs for Procter & Gamble Europe, who said waste packaging legislation "leads all too easily to net extra cost", as was the case with DSD. New national packaging legislation risked undoing the benefits of the single market.

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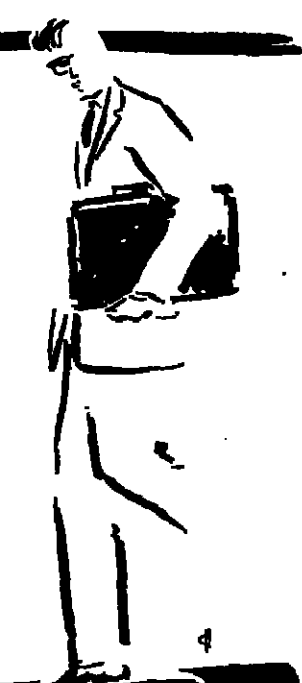
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# Hungary's privatisation falters after flying start

By Nick Clegg

HUNGARY'S economy, partially liberated by a series of pre-1989 reforms, leapt from the era of command economics with a significant headstart over its post-communist neighbours. As Poland's fragile government coalitions repeatedly collapsed and as the "velvet divorce" sundered Czechoslovakia in two, the manner of Hungary's move to democratic government also confirmed its stable political credentials. Foreign investors have given their stamp of approval by devoting to Hungary around a half of the total investment which has flowed into central and eastern Europe since the collapse of the Berlin Wall.

The government, believing that the foreign bounty would continue, came to depend on foreign capital in its privatisation strategy. Last year alone, almost 60 per cent of privatisation revenues came from abroad. Suggestions that Hungary may need to follow a Polish or Czech style Mass Privatisation Programme, where ownership is distributed directly to citizens at little charge by way of coupons or vouchers, were consistently dismissed as irrelevant to the needs of Hungary's developed economy, and unnecessary in its open and cosmopolitan culture.

Now, however, it seems as if this virtuous cycle of domestic stability and foreign support may be faltering seriously. As the remaining top-rank companies are snapped up and investors are drawn to the size of neighbouring markets - Poland alone has four times as many consumers - and to the comparatively low-risk privatisations taking place in western countries such as France and Italy, the pace of continued foreign investment is flattening out, in spite of expected heavy inflows for telecommunication privatisation. Voices are already being raised in disillusion. "Our dream has been disappointed," says Andras Giday of the Institute of Privatisation Studies in Budapest. "The promise of foreign investment has not been fulfilled."

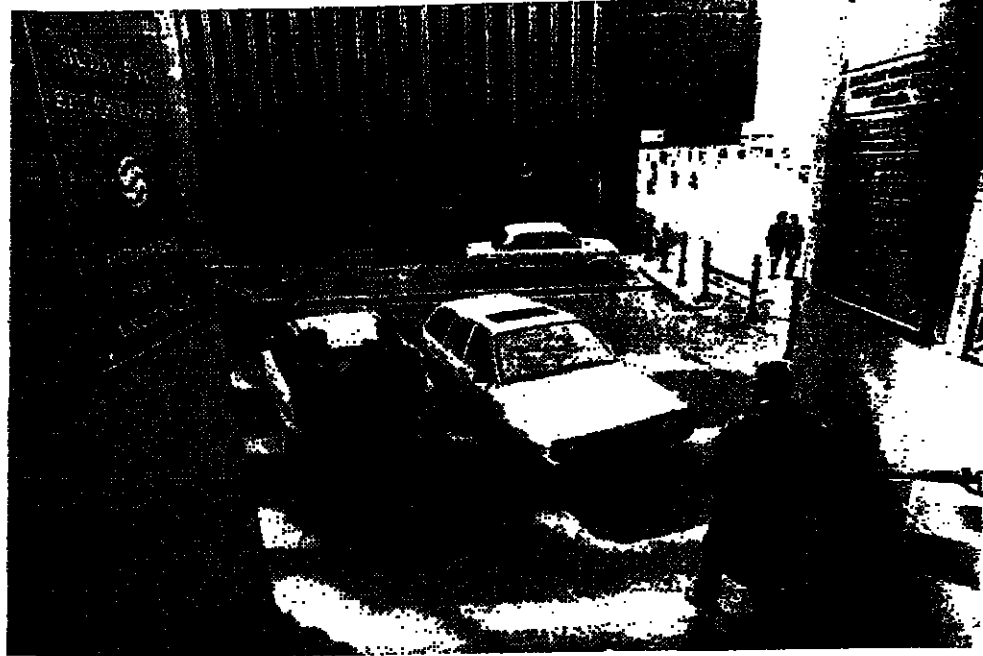
At the same time, changes in the domestic political scene have led to an increasingly chaotic approach to privatisation, confusing both domestic and foreign investors and threatening the pace of continued reform. The governing centre-right coalition has split, the opposition Socialist party and Young Democrats are streaking ahead in opinion polls and the government, perceived as inept and even corrupt by the electorate, is facing probable defeat in next year's elections.

The government, pandering to a perceived hostility to foreign ownership amongst the electorate, has launched a volley of new privatisation initiatives designed to increase domestic ownership. Lajos Csepi, head of the State Property Agency, the government body responsible for privatisation, has taken to publicly stressing the SPA's commitment to the creation of a broad property-owning middle class. "Over the last year our agenda has been dominated by the need to accelerate the process and to increase Hungarian participation," says Erzsébet Lukács, a director at the SPA.

The new initiatives, however, designed for domestic political consumption rather than as part of a serious strategy of mass privatisation, are too small to provide a significant boost to the pace of privatisation. The government's goal to privatise half of all state holdings by the beginning of the year now looks utopian. According to the State Property Agency itself, no more than 15-20 per cent has passed into private hands. Some estimates predict that by 1995 companies representing around 30-40 per cent of GDP will still be in majority government hands.

Foreign investment, despite the new rhetoric, is still regarded as the main motor of privatisation. But if foreign investment flows are set to fall, how will acceleration be achieved? For how long will Hungary be able to resist the move towards a bolder domestic approach, perhaps emulating the Polish and Czech mass distribution schemes? Significantly, Poland's new left of centre coalition government has confirmed its determination to press ahead with the foreign-managed Polish scheme.

The Hungarian government's policy changes have come in various forms:



The Budapest Stock Exchange has failed to engage the small investor in significant numbers

Nicholas Clegg was the winner of the 1993 David Thomas Prize set up in memory of David Thomas, a Financial Times journalist killed on assignment in Kuwait in 1991. This article is part of his research, undertaken with the prize money, into the way in which Hungary has tackled economic reform since leaping from the communist era of command economics.

● **State participation.** One of the most significant occurred towards the end of last year when a State Asset Management Company (AVMT), with control over 182 strategic companies in sectors such as energy and telecommunications, was formed. The rationale was that these companies, crucial to the national interest, should be properly restructured with continued state participation. The move was also widely regarded as a palliative to the supposed popular fear of foreign domination. "It marked," according to Erwin Eichmann, an American-Hungarian lawyer with Shearman and Sterling in Budapest, "a significant move in favour of Hungarian ownership."

● **Concessions.** Hungarian investors have been bombarded with new concessions to entice them into ownership. Government subsidised loans are on offer, Ft100bn (5678m) of

tradeable compensation coupons will have been distributed by the end of the year to those who lost property under the communists, and Hungarian companies by way of a "leasing" arrangement over a period of 10 years.

● **Voucher schemes.** Last week the government announced its plan to offer state shareholdings worth Ft100bn in 70 companies to small investors on concessionary terms in an effort to broaden share ownership and speed privatisation. It hopes to launch the programme during the first half of next year, with help from the UK Know-How Fund. The scheme, devised by Schroders, the UK investment bank, allows payment to be spread over five years and requires no security beyond the purchased shares themselves. Shares will only become tradeable once the credit is

welcome, are left guessing. "It is no longer good enough for a foreign investor to put money and expertise down on the table," says Eichmann. "There's now more politics to deal with." In the government's 1992 privatisation guidelines it was stipulated that a Hungarian bidder "must" be preferred if the offer is an exact match of its foreign rival.

There have already been cases where foreign bidders have lost to smaller Hungarian competitors. The multinational giant United Distillers, despite all expectations, for instance, lost the Hungarian liquor company Bully to Zwack, a diminutive Hungarian rival.

The government has even launched a "review" of some of the early unregulated privatisations. "This is dangerous and unnecessary," says Miklos Szanyi of the Institute for World Economy. "It sends out entirely the wrong signal to foreign investors, that we're going backwards." Partly to counter this impression the government earlier this month set up an investment promotion agency.

Reasons for the government's assumption that there is domestic anxiety about foreign commercial interests are not difficult to find. Before the establishment of the State Property Agency in 1990 the process of selling state assets was largely uncontrolled and abuses soon appeared. Foreign investors have been accused of cynically buying into Hungary to close down local competition. There have even been two cases where foreign owners, alleged to be corrupt, were rejected by Hungarian workers. Yet, in developing the quasi-populist privatisation initiatives, the government may be making inaccurate assumptions about public opinion.

However, negatively foreign investors are portrayed, the evidence that Hungarians are keen to reject foreign interests or assume the responsibilities of ownership themselves is unclear. Opinion polls on privatisation yield complex, even contradictory, results. Median, a leading Hungarian independent opinion poll company, recently conducted a confidential survey for the Alliance of Free Democrats, an opposition

party, about public attitudes towards economic reforms. With a steady three-way split between those who think that privatisation should be accelerated, slowed or halted, it shows that attitudes towards privatisation are ambiguous and highlights the reticence behind the patchy domestic response to the government's new initiatives.

As for organised opposition to foreign ownership, it is non-existent. "All the big trade unions are either uninterested in privatisation or they support them as part of necessary reforms," says Csako. "Hostility to privatisation is basically absent because it is still an abstraction for most workers."

What has changed most in the public's opinion, says Endre Hann, the director of Median, is the attitude towards growing wealth differentials and corruption. "It is a typical reaction in times of transition," says Hann. "The egalitarian ethic is the strongest surviving value from the communist era. People feel very insecure about the changes and increasingly resent the new wealth and corruption though they still want the benefits of a consumer society."

In a country in which corruption has long been associated with the state, and in which a suspicious hostility to the new-found wealth of the ex-Communist managerial class is acute, it is the perceived government mismanagement of the process that is the focus of attention.

The government, however, has moved at a glacial pace to avoid suspicions of political collusion. The power of government patronage to positions on the boards of privatised companies with reduced state holdings continues unchanged. The controversy earlier this year about the way in which a defector from the Free Alliance opposition to the government was rewarded with a position on the board of a privatised carpet factory in Sopron is typical. The secretive workings of the SPA have not helped either. Unsurprisingly, opposition MPs are quick to highlight a lack of transparency. "We need to make the rules of the game clear," says Balint Magyar, a leading opposition MP.

Far from rejuvenating the privatisation process, government policy seems to be leading to confusion among foreign investors, suspicion among domestic investors and a failure to address the real sources of popular discontent such as political patronage. It has also done little to accelerate the privatisation process. As the Hungarian economy sours - GDP could fall by as much as 3 per cent this year, inflation is still over 20 per cent, the budget deficit is 6.8 per cent of GDP - the need for clarity is urgent.

A bolder and more schematic approach, however, is not contemplated even by the government's critics. The liberal opposition parties, the Alliance of Free Democrats and the Federation of Young Democrats, hope to accelerate the process through the expansion of existing domestic schemes and by way of further foreign investment. The Socialists, leading strongly in opinion polls, simply stress the need to focus on restructuring prior to privatisation.

A Mass Privatisation Programme is still regarded as a crude attempt at "popular capitalism". "It doesn't address the central problem of ownership control over management and it doesn't bring in new capital," says Szanyi, voicing a familiar refrain. The Czech experience, in which privatised assets have been concentrated in the hands of investment funds promising to buy vouchers from Czech citizens up to 10 times their nominal value, is regarded with deep scepticism.

The uncertainties and risks involved in Mass Privatisation Programmes certainly warrant some caution. There is clearly no guarantee that a robust property-owning class can be successfully forged in the absence of substantial domestic capital resources.

However, as credit-starved companies languish in state control, as foreign investment flows decline and as domestic political tensions rise, Hungary may find itself obliged to join its neighbours in launching some form of Mass Privatisation Programme. Giving a stake to each individual could cut through the reticence of the Hungarian population about privatisation and offer a real choice between domestic and foreign ownership.



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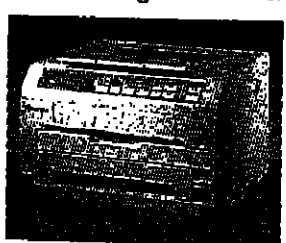
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HA



# Wall St firms agree contributions ban

By Patrick Harverson  
in New York

Self-imposed step will have impact on future local elections

WALL STREET'S biggest investment banking and securities brokerage firms have agreed to stop making political contributions to US government officials and election candidates who could award them contracts to underwrite issues of local government securities. The voluntary ban, which has earned the support of the Securities and Exchange Com-

mission, the financial industry watchdog, was due to be officially unveiled at the SEC in Washington yesterday afternoon.

Wall Street firms have been considering ending political contributions related to the municipal bond business for more than a year, but publicity surrounding several recent political scandals involving

politicians and Wall Street underwriters (including two linked to election races currently being fought) is thought to have forced the firms to reach an early agreement on a self-imposed ban.

Although no criminal action has been taken over any of the recent scandals, they only reinforced the assumption among many voters that some

Wall Street firms may have been making financial contributions to local politicians in return for hundreds of millions of dollars worth of bond underwriting business.

The ban will have a considerable impact on future local elections across the US, because securities and investment banking firms have traditionally been among the big-

gest financial backers of city and state politicians campaigning for public office.

Among the firms said to have agreed on the ban are Merrill Lynch, Goldman Sachs and Smith Barney Shearson. Mr Frank Zarb, vice-chairman of Primerica, the diversified financial services group which owns Smith Barney, is reported to have played the

pivotal role in drawing up the agreement.

While the ban agreed on by Wall Street will be voluntary, it should soon be backed by a new Federal regulation proposed by the Municipal Securities Rulemaking Board which will bar political contributions made with the aim of winning underwriting business.

The new regulation is expected to be approved by the SEC and come into effect either later this year or in early 1994.

# US environment plan due today

By George Graham  
in Washington

PRESIDENT Bill Clinton is expected to announce today his plan for cutting US emissions of greenhouse gases to meet its pledge under the Rio de Janeiro treaty on global climate change.

The plan relies mainly on voluntary measures intended to encourage the use of more energy-efficient cars, lights and other equipment; this would reduce the burning of fossil fuels and so cut emissions of carbon dioxide, the principal greenhouse gas.

Employers which provide parking to employees would be required to make an equivalent cash payment to those who use other forms of transport, with the goal of encouraging people not to commute by car and cutting more than 8m tons of carbon dioxide emissions.

Mr Clinton's plan also relies heavily on reinforcing sinks such as forests that absorb greenhouse gases, by preserving forests and planting trees.

This step is estimated to cut another 8m tons of emissions.

None of the measures would cut emissions by nearly as much as Mr Clinton's earlier proposal for an energy tax, which was abandoned in the face of opposition from senators from oil-producing states.

In announcing the proposals, Mr Clinton is following up a promise he made this year to commit the US to the target of reducing its emissions of greenhouse gases back to their 1990 level by the year 2000.

The US alone accounted for around 21 per cent of the world's entire emissions of greenhouse gases. It produced 1.31bn tons of carbon dioxide in 1990, a figure projected to rise over the 1990s without restraining measures by 100m tons.

Environmental groups yesterday were reluctant to criticise Mr Clinton's plan, which they said was substantially more specific than the proposals made by former President George Bush, but hoped for improvements over time.

# Dole in move over US troops

By Jurek Martin in Washington

FOR the second time in a week the Clinton administration was yesterday gearing itself to beat back congressional attempts to dictate where and when it may use US troops overseas.

On Sunday, Senator Bob Dole, the Republican leader, said he would submit a bill preventing the administration from using force in Haiti unless the president certified that vital US national security interests were involved.

Yesterday, Mr Warren Christopher, secretary of state, warned that passage of the proposed Dole amendment, which would be tagged on to the current defence appropriations bill, would be "a very serious setback for the US".

Any provision which preconditions the ability of the president to use the armed forces is offensive to the constitution," he said.

Mr Dole had helped the administration last week defeat an amendment limiting US military operations in Somalia. On Sunday morning, prior to the TV interview in which he disclosed his proposal, he called President Bill Clinton for a lengthy discussion, which prompted the senator to revise an existing legislative draft.

The senator, in his TV interview, seemed particularly exercised at the prospect of US lives being lost to reinstate Mr Jean-Bertrand Aristide, the ousted Haitian president. "I think he has a lot of shortcomings," Mr Dole said.

He doubted that Haiti was ready for democracy or that Mr Aristide, on the basis of his eight months in office, was a democrat. In both cases his judgment tallies with that of other government departments, though last week Mr Clinton stoutly defended Mr Aristide's record in exile.

Some members of the administration were inclined to suggest that Mr Dole was acting with his own political future in mind. Last week several pro-Dole candidates for the 1996 Republican nomination burst forth with indictments of the administration's foreign policy at precisely the moment that Mr Dole was actively engaged in sustaining it on Somalia.

# Foreigners and Haitians flee amid rumours of invasion

By Canute James in Kingston

THOUSANDS of foreigners living in Port-au-Prince, Haiti's capital, gathered at its international airport yesterday in an effort to flee the country following the broadcast of a statement by supporters of the military government that all white foreigners should leave immediately.

An attempt by the military government, through another broadcast yesterday, to retract the command appeared only to have added to the growing panic and tension.

Meanwhile, Haitians are leaving the capital for the countryside in the wake of rumours that a foreign military invasion is imminent as

part of international efforts to restore Mr Jean-Bertrand Aristide as president.

Clashes between factions supporting Mr Aristide and those backing the military government, which has refused to step down, claimed 16 lives over the weekend, and appeared likely to continue yesterday as Mr Aristide's supporters organised three days of mourning for Mr Guy Malary, the justice minister who was assassinated on Thursday.

Diplomats said Haitians were convinced that foreign troops would land in a matter of days unless the military rulers left office and made way for Mr Aristide to return.

The fears of an invasion heightened at the weekend as

warships from the US and Canada took up positions off Haiti's coast to enforce an international economic embargo aimed at forcing Gen Raoul Cedras, the military leader, and other officers to step down in accordance with an agreement reached with Mr Aristide in early July. Gen Cedras and Lt Col Michel Francois, the police chief, have said they will not leave office.

The effectiveness of earlier attempts at an embargo have been frustrated by hectic trading across the border between Haiti and the Dominican Republic, which share the island of Hispaniola. The Dominican government has said it will reinforce military patrols at the border, but businessmen in Santo Domingo, the capital, said yesterday that this might not be enough to prevent some soldiers and other smugglers from selling petrol and other essentials to the Haitians.

Supporters of Mr Aristide say factions in the military have plotted the murder of several prominent Haitians, including Aristide supporters and members of the civilian government, to frustrate further the return of Mr Aristide.

The claim gained currency following the murder last month of Mr Antoine Izemery, a businessman and supporter of Mr Aristide, and that of Mr Malary last week.

Likely targets of the campaign are reported to be Mr Robert Malval, the prime minister, and Mr Evans Paul, the mayor of Port-au-Prince and a supporter of Mr Aristide.



Haitians trying to flee Port-au-Prince crowd on to a truck heading for the countryside, at a bus station in the capital. Associated Press

# LA beating trial goes back to jury room

THE JURY in the trial of two black men accused in the beating of a white truck driver unexpectedly said yesterday it had resumed deliberations, agencies report from Los Angeles.

The jury said at the weekend it had reached verdicts on some charges stemming from the attack on trucker Reginald Denny during last year's Los Angeles riots but was deadlocked on others and further deliberations would be pointless.

Superior Court Judge John Ouderkirk had said he would take partial verdicts from the racially mixed jury at yesterday's hearing "unless something unusual happens or I receive some kind of communication from the jury".

On the streets, police stepped up patrols as a precaution against violence in the wake of the expected verdicts, though officials said they did not expect trouble. "We're heavily deployed," said Lt John Dunkin. "But I want to stress that we are very optimistic we are not going to have any problems today."

The alert was modest compared with the one in place in April, as the federal trial of four white policemen accused of violating black motorist Rodney King's civil rights neared its end. There was no trouble when two of the officers were convicted and the other two acquitted.

# Brazil's Congress in corruption row

By Angus Foster in São Paulo

BRAZIL'S Congress has been hit by allegations of corruption which could impede work now under way on an important constitutional review and which could further undermine the body's credibility ahead of next year's elections.

The allegations were made by a former government official, Mr José Carlos Alves dos Santos, who was responsible for the annual budget under former presidents José Sarney and Fernando Collor.

Mr Collor resigned last year because of unrelated corruption charges.

According to Mr Santos, more than 20 members of Congress, as well as acting and former government ministers, were involved in the corruption scheme, which channelled "funds" from construction projects to members in return for

having the projects cleared in the annual budget.

Mr Santos, who was arrested last week after police found forged banknotes at his home and cocaine in an aircraft he had used, claims he received \$1.2m for his role in the scheme.

It is not clear Mr Santos can prove his allegations that payments were made to members, who include three acting state governors and a friend and close adviser to President Itamar Franco. Several have said they will sue Mr Santos, whom they describe as "unreliable" since he is also the chief suspect in his wife's murder investigation.

Nevertheless, the allegations have rocked Congress and follow accusations that "transfer fees" were paid to members who switched allegiance to a small political party earlier this month.

# Tokyo rejects November 1 deadline

# US ultimatum over Japan building bids

By Michio Nakamoto in Tokyo  
and Nancy Dunne  
in Washington

THE US will impose sanctions on Japan on November 1 unless Tokyo agrees to open its construction market to bids from foreign companies, according to US officials in Tokyo.

Feelers have been received indicating that the Japanese might have further proposals during the overall "framework" talks in Tokyo this week. However, anything less than a deathbed conversion is unlikely to be unacceptable.

The US and Japan have for seven years been at odds over US demands that Japan open its construction market further to foreign companies and increase transparency in its bidding system. After all the grandly trumpeted agreements, US companies have achieved only a 0.07 per cent share of the Japanese public sector construction and design market and 0.003 per cent share of the private sector market.

The US set an initial deadline for Japan to meet its demands in opening the construction market in July, which was extended to November 1 by the US Trade Representative.

The US has indicated that unless an agreement between the two sides is in place on November 1, harring intervention by President Bill Clinton,

sanctions covering all government procurement that is not covered by the General Agreement on Tariffs and Trade would automatically go into effect.

How many projects and sales this covers has not yet been determined, but it is expected to be modest.

In June the US indicated that it was looking to Japan to fulfil four principles in opening up its construction market: an open and competitive bidding system, application of such a system in all big projects above a certain level, greater enforcement of anti-monopoly laws, and the enhancement of annual data collection to assess progress made.

Mr Kozo Igarashi, Japan's construction minister, has recently indicated his determination to try to solve the construction row before the November 1 deadline, but so far a Japanese proposal to reform its bidding process has not been received very well by the US.

The Japanese authorities are offering to introduce a conditional open bidding system which would allow companies ranked as "A-class" by the Construction Ministry to bid in certain projects.

The proposal has not gone over well with the US, in part because as far as the ministry is concerned no foreign company has ever been "A" ranked, according to a senior

US official. "This whole problem sounds a lot like a Catch-22," the official remarked.

The Japanese proposal also includes a disqualification process but no guarantee that companies would be told in advance of how they might be disqualified, the official said. Washington believes that as Tokyo has wide discretion about who can bid, there will be considerable room for discrimination.

Meanwhile, Japanese officials continue to refuse to accept the deadline, which they claim was set by the US without warning and although the formal deadline for US sanctions is fast approaching, no talks have been arranged so far between the two sides.

"The deadline was announced out of the blue," protested a Japanese Construction Ministry official dealing with the negotiations. "No country is going to change its own domestic way of doing things because it is being threatened with sanctions by another country."

In Washington, officials scoff at the suggestion that the US is rushing the process. They have fully expected US-Japan trade relations to worsen before they improve. They are poised to take a tough stand here and elsewhere both to show Tokyo they mean business and to send the same message to a restive Congress.

# EC doubts on two-tier services proposal

By David Dodwell, World Trade  
Editor, in Brussels

EUROPEAN Community trade negotiators yesterday expressed concern over a controversial US Uruguay Round proposal to deny Japan and developing countries the benefits of liberalisation of the US banking and insurance sector.

They have warned the proposal could unravel other countries' commitments to open up their service sectors to international competition, and jeopardise completion of the round by the deadline of December 15.

The proposal, discussed in Brussels yesterday by Mr Lawrence Summers, US Treasury undersecretary, during an early morning meeting with Sir Leon Brittan, EC trade commissioner, would involve giving all countries open access to the US financial services sector as it now stands, but reserving to industrial countries - minus Japan - the benefits that would come from further liberalisation of the US financial services market.

Most significantly, this would exclude Japan and other developing countries from setting up universal banking operations in the US if and when the Glass Steagall Act, limiting banking licences to a single state, is reformed.

The US is considering this two-tier approach to trading partners out of frustration at the reluctance of Japan, South Korea and the Asian nations of Singapore, Thailand, Indonesia, the Philippines and Malaysia to open their banking, insurance and stock market sectors to international competition.

Gatt estimates that commercial services affected by financial services liberalisation amounts to \$12,000bn. The US proposal is seen by trading partners as contentious in particular because it apparently shows the US is unwilling to abandon bilateral leverage against trading partners when Uruguay Round negotiations aim to win wider support for multilateral settlement of trade disputes.

# Balladur seeks consensus on Gatt

By David Buchan in Paris and  
Lionel Barber in Brussels

MR Edouard Balladur, the French prime minister, yesterday saw the complete spectrum of French political, farm, industry and show business leaders in seeking a consensus for his negotiating position in the Gatt trade talks.

After conceding on television on Sunday night that Gatt was "a trap for his government", offering it only the alternative between an international or a domestic crisis, Mr Balladur called a succession of leaders and opinion-formers into his office, the Matignon.

Over the weekend Mr Jacques Delors, president of the European Commission, made a rare public intervention in the Gatt debate, warning France of the risks of isolating itself over farm trade.

In a French television interview he said

France was "inventing its own Maginot Line" - a reference to the elaborate but ultimately ineffective line of defences built against the Germans during the two world wars.

Alides said yesterday Mr Delors was worried by the escalating rhetoric in France. One sign of the "madness" in the Gatt debate was the way in which a report in favour of free trade drawn up by Mr Patrick Devedjian, the moderate RPR Gaullist deputy, was simply killed in committee.

Mr Delors's criticism of the French government's position was balanced by sharp words for the US, which he said had failed to follow through on commitments on market access made last July in Tokyo.

Most important, and for the moment predictably, he won a pledge of "complete support" from the leader of his own RPR Gaullist party, Mr Jacques Chirac. A possible tussle between the two men for the

presidency in 1995 could turn on the farm vote, which Mr Chirac has always courted assiduously. Mr Valéry Giscard d'Estaing, leader of the other government coalition party, the UDF, is due to see Mr Balladur later today.

Mr Balladur got only an ambiguous promise from Mr Michel Rocard, leader of the Socialists, the main opposition party, that he would remain "vigilant" in watching out for French interests.

While the Communists said they could not support Mr Balladur "for the moment", because he was not being tough enough, and the Greens pushed for a strong French stance in Gatt, the prime minister found some backing from Mr Jean-Marie Le Pen, the right-wing nationalist, who said he was ready to participate in "the broad national consensus" that Mr Balladur is seeking in the run-up to the December 15 deadline for the Gatt talks.

# Failure on tariff cuts imperils trade talks, says Sutherland

# Gatt chief warns on Uruguay Round

By Frances Williams in Geneva

MR Peter Sutherland, director-general of the General Agreement on Tariffs and Trade, yesterday warned the US and the European Community that their failure last week to make progress on tariff reductions had put the Uruguay Round of global trade talks in jeopardy.

"The simple fact is that we need a breakthrough now," he said. Without this "in the coming days" it would be virtually impossible to conclude the multilateral negotiations on improving market access for farm and industrial goods by the agreed date of November 15.

A successful conclusion to the talks on lowering tariffs and other trade barriers to imported goods is seen as essential to securing agreement on controversial aspects of the Uruguay Round trade rules package, including farm trade reform, before the December 15 deadline.

Mr Sutherland called for "new and urgent moves" by the US and EC to "demonstrate leadership" on market access



Canadian special envoy William McKnight (left), Australian trade minister Peter Cook and Gatt director-general Peter Sutherland during a break at the Cairns Group meeting in Geneva

and said that if their negotiators could not make rapid progress then ministers of the Cairns nations - the US, EC, Japan and Canada - should meet "to thrash out a deal before it is too late".

The EC's new tariff offer, due to be tabled soon, has already been criticised by Washington as not going far enough, while EC negotiators say the US has not sufficiently cut peak tariffs on textiles. Meanwhile, ministers from

the 14-strong Cairns Group of agricultural exporting countries ended a meeting in Geneva with a warning that a substantial market access package was essential if the group was to accept the Blair House accord on farm subsidies negotiated by the US and EC last year.

Mr Peter Cook, trade minister of Australia, which chairs the group, said at a news conference that if French-led EC pressure produced a weakened

Blair House deal "the chances of acceptance would be zero". Cairns countries have not endorsed the bilateral accord, which they regard as a lamentable dilution of the earlier draft Gatt agreement on farm trade reform.

Mr Cook, who will go to Paris, Bonn and Brussels this week, made a vigorous though veiled attack on France, saying that querying the December 15 deadline sabotaged the negotiating process.

# British machine tool hopes

By Andrew Baxter

THE BRITISH machine tool industry is hoping to increase its exports to the US following a successful trade mission for the automotive and related industries, such as construction equipment.

A dozen senior executives from companies such as General Motors, Caterpillar, Deere and Dana have just completed a week touring UK machine

tool factories. The mission was organised by the UK's Machine Tool Technologies Association, with financial support from the Department of Trade and Industry.

Increasing exports to the US, the world's third biggest consumer of machine tools, is particularly important for the British machine tool industry. Last year the US regained from Germany its position as the UK's biggest single export mar-

ket for machine tools, with equipment worth \$50.8m (\$76.7m) sold there.

This year the German market has continued to fall while the US is recovering, albeit slowly, as customers in manufacturing industry become more confident about buying capital equipment.

Imports accounted for approximately 46 per cent of the \$3.9bn US market last year.



## NEWS: INTERNATIONAL

# Sri Lanka to speed up reforms

By Richard Cowper  
in Colombo

SRI LANKA is expected to announce a reform package aimed at further liberalising the economy and measures to tighten monetary policy to combat rising inflation.

In the budget, due to be announced early next month, the government is set to announce a speeding-up of privatisation, a further reduction in import tariffs and a cut in the basic rate of income tax of up to 10 percentage points from the current rate of 45 per cent.

According to a senior government finance official, the top rate of import tariffs will probably be cut from 50 per cent to around 40 per cent, with most tariffs cut by 10 points across the board.

Mr D B Wijetunga, the newly-appointed president and also the country's finance minister, has described inflation as the "monster" terrorising the country's economy and has given finance officials the task of cutting inflation from about 12 per cent to single digits by next year.

The budget therefore is expected to be an austere one with an attempt to reduce the deficit from about 8 per cent of gross domestic product this year to 7 per cent next. A strengthening of tax collection and an increase in indirect taxation, coupled with expenditure cuts and more precise targeting of welfare spending, is expected. In addition a number of measures, including the possible retirement of outstanding debt, is likely to be announced to soak up surplus liquidity.

On privatisation, the government is considering a more radical approach to the private management of the country's plantations, private roads, a build-operate-transfer power project and the partial privatisation of the telecommunications sector.

The budget, due to be



Wijetunga: fighting inflation

announced on November 12, comes at a time when the Sri Lankan economy is growing fast, but still faces structural problems.

A strong recovery in agriculture, notably tea and rubber, after a severe drought hit output last year has joined with a 9 per cent real growth in industrial production to put the country on course for an overall growth rate of over 5 per cent in 1993.

The country's balance of payments, however, is experiencing mixed fortunes with a sharp deterioration in the balance of trade. Exports grew 33 per cent in the first half of 1993 to SLR61.8bn (\$1.26bn), compared with the same period last year but imports grew even faster at 35 per cent to SLR66.9bn. The country's trade deficit soared 38 per cent to SLR4.2bn.

The decline in the trade balance helped to increase the current account deficit from SLR12.8bn in the first six months of last year to SLR17.5bn in the first half of 1993. However, a sharp net increase in capital inflows arising from a more liberal investment environment and increases in foreign aid saw a surplus on the overall balance of payments of SLR3.8bn, up from SLR3.5bn in the first half of 1992.

# Extra days off leave workers at a loose end

By Michio Nakamoto in Tokyo

MR BENICHI ETO, president of the Federation of Nippon Steel Workers' Unions, contemplates the prospect of two extra days off from work each month and looks troubled. "With two extra days off from work, what would people do? I don't know how people will use their time," he says.

Mr Eto's concern follows last week's request from the world's largest steel company to its workers to accept reduced working hours of about two days a month from next month as an emergency measure to tide the company over a difficult trading environment.

"We Japanese are not good at using our free time. If it had been in the old days when we only had Sundays off, it proba-

bly would have been all right. But with two days on top of the eight to 10 days people already take off each month, they will say they have too many days off," Mr Eto adds.

He is preparing to bow to the management request, even though it would mean a cut in pay for all Nippon Steel employees, including managers. "This is a very rare case."

The unions' contract with the company allows the introduction of emergency holidays on condition the company pays 85 per cent of the basic salary of those affected.

Nippon Steel's unions had been prepared for such an eventuality. "The last time the company introduced such a measure was during the previous rise of the yen (in the mid-1980s). But since the economic situation today is worse than

before, we thought that this might happen."

For the 43,000 members of Nippon Steel's labour unions, there is little choice but to accept the company's request. The union leaders and their 43,000 members know that, in addition to three years of economic slowdown, the industry is under pressure from the recent sharp appreciation of the yen, which has made Japanese steel far less competitive than that of overseas rivals.

But it is not just the steel industry which is suffering from the recession and the yen's strength. Every Japanese manufacturing industry that competes internationally is under pressure, making it hard to resort to job transfers to subsidiaries and other industries, one of the first measures Japanese companies

turn to in times of trouble.

Already 13,000 of the unions' members have been transferred to several hundred different companies, some of which are completely unrelated to Nippon Steel, which is bearing the cost of making up the difference in pay and other social benefits.

Union members also know their choice is between maintaining work, at reduced pay, or facing redundancies for the first time.

"We are agreeing to the emergency holidays because the most important thing is to maintain employment," Mr Eto says. If the choice is between reduced working days and reduced pay or redundancies, he has no doubt "the company, the labour union and individuals all need to make sacrifices to maintain employment."

He feels that, as parts of an industry leader, both the unions and management of Nippon Steel have a responsibility to choose to keep employment intact as a sign to the rest of Japanese industry. Other steel companies are considering similar measures.

"If Nippon Steel makes redundancies, it would not be just a matter affecting employees of Nippon Steel; it would affect the whole of the Japanese labour system," he notes.

Nippon Steel's unions are not blaming management for what is happening, since they recognise that the problem they face is mostly to do with the sharp rise of the yen.

Past experience may not be enough to overcome the industry's difficulties, but Mr Eto is confident that if the situation worsens, the company can be

expected to take some unusual measures before it sheds employees.

"There is nothing stopping a company from borrowing money to maintain employment," he says. "When we have seen that the company has used up all its assets and is still unable to deal with the situation, we will have to prepare ourselves for the worst."

For the time being, the one request from the unions to management is to ensure that the programme of reduced working days is introduced equally among employees and that no exceptions are allowed.

As for Mr Eto himself, he will have to accept the salary cut, but will probably not be able actually to take time off. "For union officials, the worse the recession becomes, the busier we are," he says.

## Russia urged to call halt to dumping of nuclear waste

THE JAPANESE government will demand that Russia stop pumping nuclear waste into the Sea of Japan immediately, it said yesterday, adding it had received no advance warning from Moscow of the operation, Reuters reports from Tokyo.

"We had been asking them to stop such operations from last year," Science and Technology Minister Satsuki Eda told parliament. Prime Minister Morihiro Hosokawa said the government would lodge a protest, pending further checks.

Tokyo might use part of a planned \$100m (\$66.2m) grant in aid to Russia to help build facilities to dispose of nuclear waste. Mr Hideaki Kumano, Vice-Minister of International Trade and Industry, told a news conference.

The \$100m aid grant, included in a \$1.82bn Russian aid package Japan pledged in April, is designed to help dismantle Russia's nuclear weaponry.

The two sides agreed to set up a committee to decide how to use the cash when Russian President Boris Yeltsin visited Japan last week. They also signed an agreement on the problem of nuclear dumping. The pact called for a joint investigation of radiation levels in the Sea of Japan.

The environmental group Greenpeace raised the alarm on Sunday after watching a Russian navy vessel pour liquid waste directly into the Sea of Japan off the Mari-



A police officer watches a protester outside Tokyo's Russian embassy

time Province in the Siberian Far East, despite a global moratorium.

Gillian Tett adds from Moscow: Russian officials said yesterday they would press ahead with their dumping operation in spite of the strong Japanese protests.

Mr Nikolai Ribelsky, deputy environment minister, defended the dumping and

said the liquid radioactive material was being transferred between tankers in the second phase of an operation that started over the weekend.

He insisted the quantity already dumped, some 900 cubic metres of waste, did not break accepted international standards.

## Japan's surplus at record \$60bn

By William Dawkins in Tokyo

JAPAN'S efforts to curb its politically troublesome trade surplus brought little result in the first six months of the fiscal year, when the balance widened to a record \$60.07bn. The balance, for the six months to the end of September, is the highest for a six-month period and 15.2 per cent more than the surplus in the first half of last year, according to a preliminary finance ministry report yesterday.

This is entirely due to the Japanese currency's rise in value against the dollar, since the surplus for the first six months actually declined by 2.3 per cent in yen terms. Nevertheless, the record dollar surplus is likely to add to strains in talks between the US and Tokyo on improving access for foreign companies to several Japanese market sectors.

Within the total, the surplus last month rose by 5.4 per cent year-on-year to \$12.73bn, the 33rd month in a row in which it has increased. In yen terms, however, the trade surplus declined in September for the second month in a row, to ¥1,300bn (\$13.547m), down 11.2 per cent on September 1992.

In an encouraging sign for an improvement in previously sluggish Japanese consumption, imports last month rose by 6.4 per cent to \$29.73bn, spread across most sectors. Within this, imports of machinery grew 20.6 per cent, food 4 per cent and textiles 18.9 per cent, though imports of fuel fell 12.3 per cent.

Import demand should increase, thanks to the impact of the government's economic stimulation packages, finance ministry officials predicted. The September imports rise brings the total for the six months to \$121.7bn, or 5 per cent more than the same period last year. Exports rose faster by 8.2 per cent over the same period to \$181.7bn.

However, the outlook for domestic demand is uncertain, the Ministry of International Trade and Industry warned. Industrial production in August fell a revised 1.2 per cent from the previous month, against its original estimate of a 0.7 per cent fall, Miti said.

Output would continue to be sluggish because of the uncertainty of demand and the slowness with which companies are expected to be able to reduce inventories.

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## RAND MINES LIMITED DIVIDEND DECLARATION

The directors have declared dividend No. 109 as a final dividend in respect of the year ended 30 September 1993 as follows:

Amount (South African currency)	130 cents per share
Last day to register for dividend (and for changes of address or dividend instructions)	12 November
Register of members closed from to (inclusive)	13 November to 21 November
Share trade ex-dividend in Johannesburg and London	15 November
Currency conversion date for sterling payments to shareholders paid from London	25 November
Dividend warrants posted	9 December
Payment date of dividend	10 December
Rate of non-resident shareholders' tax	15 per cent

Holders of share warrants to bearer are notified that the dividend is payable on or after Friday, 10 December 1993 upon presentation of coupon No. 112.

The full conditions of payment of this dividend may be inspected at or obtained from the offices of the share transfer secretaries in Johannesburg or the offices of the United Kingdom registrars, transfer and paying agents in Beckenham, Kent.

By order of the board  
Randmin Services Limited  
(formerly RAND MINES (MINING & SERVICES) LIMITED)  
Secretary: per W. COATCHEL (18 October 1993)

REGISTERED OFFICE: UNITED KINGDOM SECRETARIES:  
Randmin House, 21 Chapel Road, Vantage Corporate Services Limited  
Bloem 2196, 19 Chancery Street  
(P.O. Box 78861, Sandton 2146) London EC1N 6DP

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## CONTRACTS & TENDERS



## ÇUKUROVA ELEKTRİK

## BERKE DAM AND HYDROELECTRIC POWER PLANT PROJECT ELECTRICAL EQUIPMENT

## PROCUREMENT NOTICE

The ÇUKUROVA ELEKTRİK A.S. (CEAS), has received a loan from the WORLD BANK towards the cost of BERKE Dam and Hydroelectric Power Plant Project, and part of the proceeds of this loan will be applied to eligible payments under the Contract No.4 for the "Electrical Equipment" for which this advertisement is issued.

The ÇUKUROVA ELEKTRİK A.S. now invites sealed bids, from eligible Bidders, for the design, manufacture, shop assembly & testing, packing, sea & land transport to site, erection, testing & commissioning, training of operation personnel, and guarantee of the following equipment for the Berke Project:

01. Powerhouse - Generator MV Equipment
02. Powerhouse - MV Continuous End. Type Iso. - Phase Bus.
03. Powerhouse - MV Substation
04. Powerhouse - Station Service Transformers
05. Powerhouse - 380 V A.C. Station Service
06. Powerhouse - D.C. and A.C. Safety Station Services
07. Powerhouse - Control Equipment
08. 154 kV Power Cables
09. Intermediate Substation
10. Powerhouse - Grounding
11. Dam Area - MV Substation
12. Dam Area - Low Voltage A.C. Station Service
13. Dam Area - D.C. Station Service
14. Dam Area - Control Equipment
15. Dam Area - Grounding
16. Telephone and Transmission System.

This procurement shall be made on the basis of the World Bank's guidelines and is open to all suppliers from eligible source countries, i.e. the World Bank member countries, Taiwan and China.

The basic condition of eligibility shall be successful completion of at least the works defined below within the last 15 years (1978 - 1993 both included):

- a) **H.V. Equipment:** At least 200 (two hundred) bays of HV substation, at least 170 kV or higher voltage level out of which, at least 25% shall be already in successful operation since five years;
- b) **Control Equipment:** At least equipment for ten (10) power plants each at least 20 MVA installed capacity, already in successful operation since five years;
- c) **Auxiliary Equipment:** At least auxiliary equipment for ten (10) power plants each at least 20 MVA installed capacity, already in successful operation since five years.

Interested eligible Bidders may obtain further information from and inspect the Bidding Documents at the office of:

ÇUKUROVA ELEKTRİK A.S.  
SEYHAN BARAJI, PK 239  
01322 ADANA - TURKEY

Phone: (322) 235 06 81 (4 lines)  
Telefax: (322) 235 02 57  
Telex: 62735 CEAS - TR

A complete set of Bidding Documents No. 4 may be purchased by any interested eligible Bidder beginning October 12, 1993, on the submission of a written application to the above office and upon payment of a non-refundable fee of 500 (five hundred) USD.

All bids must be accompanied by a bid security of 600,000 (six hundred thousand) USD or an equivalent amount in a freely convertible currency and must be delivered to the above office on or before 13:00 hours, local time on December 16, 1993. Bids will be opened in the presence of those Bidders' representatives, who choose to attend, at 14:00 hours, local time on December 16, 1993 at the offices of the General Management of ÇUKUROVA ELEKTRİK A.S. Seyhan Barajı, Adana-TURKEY.

It is essential that the bids shall be submitted in full conformity with the bidding documents, prepared according to the World Bank's guidelines, and that the Bidders shall submit, together with their bids, the required information and documents for the conditions required in the bidding documents for the eligibility of the Bidder or those bids which are not in conformity with the bidding documents shall be rejected. The decision by CEAS in relation to the evaluation, selection and signing of the contract for the offers received, shall be final and the announcing of these shall be done by CEAS.

CEAS reserves the right to accept or to reject any Bid and to annul the Bidding process and reject all bids, at any time prior to inform the affected Bidder(s) of the grounds for the CEAS's action.

Any delay in mail or offer by telephone, telegram, telex or telefax shall not be accepted.

GENERAL MANAGEMENT



## Bhutto set to return as PM

By Farhan Bokhari in Islamabad

MS Benazir Bhutto was last night almost certain to return as Pakistan's prime minister in today's parliamentary vote, with her Pakistan People's Party (PPP) expected to build a coalition with smaller parties in the National Assembly, the lower house of parliament.

Sunday's victory for Mr Yusuf Raza Gillani of the PPP for the position of Speaker, had already confirmed Ms Bhutto's lead over Mr Nawaz Sharif, her arch-rival. The PPP is also expected to form governments in at least two of Pakistan's four provinces (Sindh and Baluchistan), while Mr Sharif's Pakistan Muslim League (PML) appears to be leading in the North-West Frontier Province.

However, the two sides are still engaged in a tough fight for the province of Punjab, the country's largest and wealthiest province. Members of the provincial legislatures are due to elect their governments tomorrow.

Ms Bhutto's latest victory has effectively ended her three-year stint as leader of the opposition, since her government's dismissal in August 1990 on charges of corruption. She feels vindicated because none of the charges laid against her or Mr Asif Ali Zardari, her husband, has been proved.

However, her return still needs to be consolidated through the formation of a stable government which can resist opposition pressure. Although Mr Sharif is out of power, that has not curtailed his ability to build up his ranks by winning over members of smaller parties allied to Ms Bhutto.

One of Ms Bhutto's most important challenges will be to carry forward the recent negotiations with the International Monetary Fund.

Pakistan is seeking up to \$1.2bn (£790m) under the extended structural adjustment facility and extended finance facility over the next three years.

Her aides have already said Pakistan's economic direction will remain unchanged, with emphasis on privatisation and deregulation of the public sector. But it is still not clear if sensitive measures such as a wealth tax on powerful feudal landlords, which were introduced by Mr Moeen Qureshi, the interim prime minister, can be retained, with most of the newly-elected members representing the rich farmers' lobby.

## Mass protests threatened unless Indian army lifts shrine siege

# Kashmir militants raise the stakes

By Stefan Wagstyl in Srinagar and Shiraz Sidwa in New Delhi

KASHMIRI political groups yesterday threatened to call mass demonstrations on Friday, the Muslim holy day, unless the siege of the holiest Moslem shrine in the troubled state of Kashmir is lifted.

About 10,000 troops and police have surrounded the white marble Hazrat Bal shrine in Srinagar, the Kashmiri capital, since Friday when they trapped militants inside the building after a tip-off that they were planning to remove a relic (a strand of hair said to be the Prophet Mohammed's) and blame the government for its disappearance.

The 50 separatist insurgents inside the shrine have threatened to blow it up if negotiations with the authorities fail.

Around 100 pilgrims are also inside the shrine.

The militants have demanded the removal of the army cordon, safe passage for themselves and the handing over of the holy relic to Moslem clergy.

The government in New Delhi, campaigning for the crucial state elections in November, is particularly keen to resolve the deadlock peacefully.

"One false move and we will have a crisis on our hands," said a senior official in the prime minister's office. The militants, who are unlikely to cause any real harm to the shrine because it would only alienate them from the public, are holding out in the hope that the government will attack them and destroy the building, inflaming religious passions.

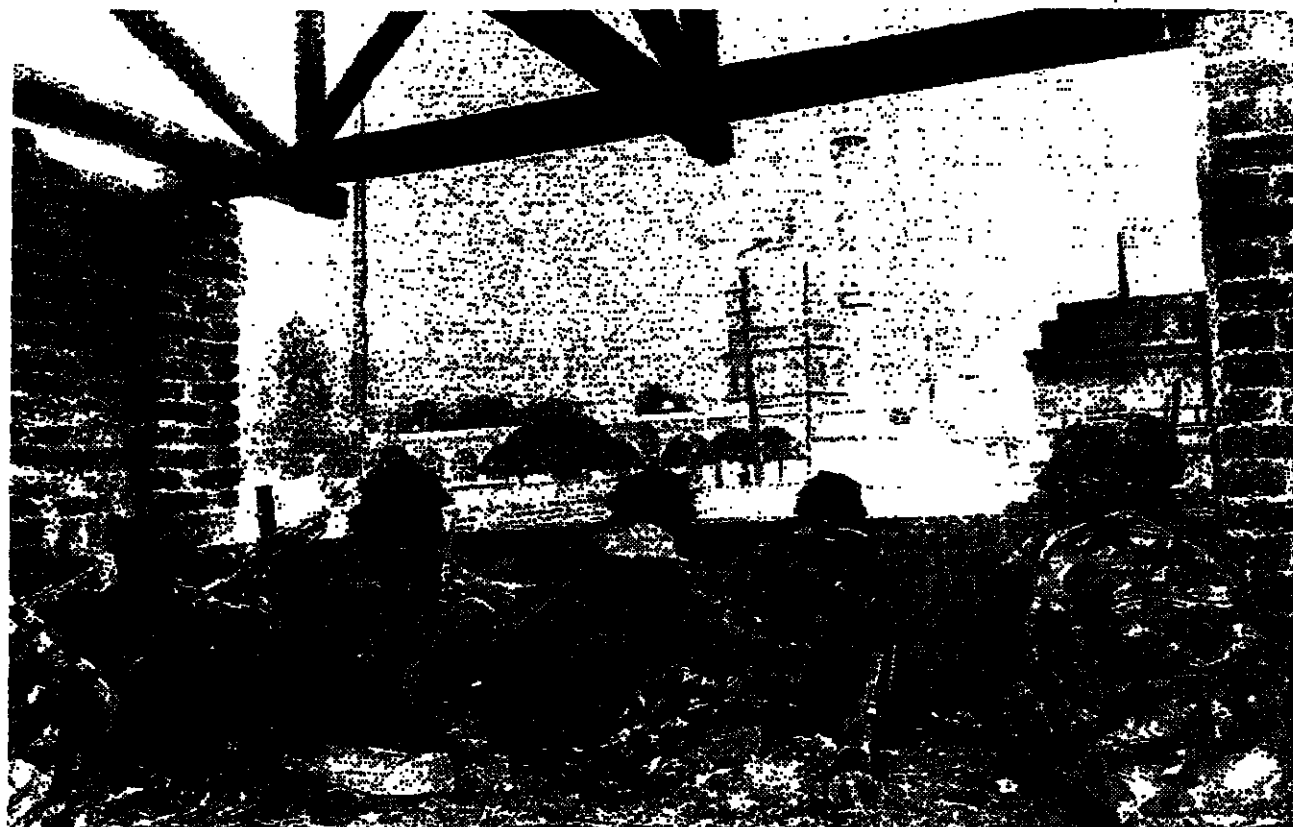
Embarrassed that the incident has brought the four-year-old Kashmiri crisis into the glare of the international community, the government is prepared to accept foreign mediation.

India has been particularly defensive about allegations from foreign governments and human rights organisations that human rights are being violated by the army in Kashmir. The government has blamed Pakistan for funding

and supporting the separatist movement in Kashmir, and has also accused Pakistan of being directly responsible for the occupation of the mosque.

Srinagar was tense but mostly quiet yesterday with a military curfew enforced in the centre of the city and the rest affected by a protest strike called by the militants.

Mr Abdul Ghani Lone, representative of the All Party Freedom Conference, an umbrella organisation of separatist polit-



Indian troops take cover in a ruined building overlooking the Srinagar shrine

ical groups, blamed the government for starting the siege. He said that if the crisis was not resolved by 3pm today he and other political leaders would break the curfew and march towards the mosque. He called on all Kashmiris to start marches on Friday if the siege is not ended.

However, residents said they doubted if demonstrations would be large, given the scale of the security forces present. Kashmiris mostly support the

militants' goal of greater autonomy.

General B C Joshi, chief of the Indian army, said yesterday that the operation against the militants in Hazrat Bal would continue until they surrendered.

But he ruled out the use of force unless the army was provoked unduly by the militants.

The strategy of the operation, Gen Joshi said, was to "hire them out and break their will."

## Kenya to merge exchange rates

By Leslie Crawford in Nairobi

KENYA is to rationalise its dual exchange rate system today by floating the official rate of the shilling to the level of the free market rate.

Finance Minister Musalia Mudavadi said yesterday.

The measure will lead to a small devaluation of the official shilling, which is used in central government purchases and debt-service payments.

At the start of business yesterday the official exchange rate was 87.6 shillings to the dollar and the inter-bank commercial rate was 88.85 shillings - a gap of less than 2 per cent.

Import bills and most private

sector transactions are settled at the inter-bank rate.

International Monetary Fund and World Bank officials, currently reviewing Kenya's economic progress in Nairobi, had recommended the merger as a step towards the abolition of currency controls.

Mr Mudavadi said the flotation would encourage exporters, who must remit half of their foreign earnings to the central bank, which reimburses them in local currency at the official rate of exchange.

The flotation is the latest of several liberalisation measures which have included three devaluations since December.

## Palestinians secure \$600m aid package

By Julian O'zanne in Jerusalem

INTERNATIONAL donors have agreed a \$600m aid package in grants and loans for the occupied territories for 1994, according to Mr Avraham Shochat, Israel's finance minister.

The sum is part of a five year \$2.5bn external financing programme, agreed in Washington this month, for the interim period of Palestinian self-rule in the occupied Gaza Strip and West Bank.

Mr Shochat said the incoming Palestinian authority might be able to draw money from the budget before 1994 to assist in the creation of a Palestinian police force. A substantial part of the budget would also be allocated to spending on education, health and social services by a Palestinian authority which will take over from the Israeli military-run administration when the Israelis withdraw from the Gaza Strip and Jericho by April 13.

An international steering committee will meet in Paris on November 5 to hammer out details of disbursing the aid. The committee is expected to be chaired by Norway and assisted by the World Bank, which is carrying out extensive research on the needs of the occupied territories and the possible mechanisms of disbursement. Two crucial problems facing international donors are the lack of a Palestinian implementing authority and the question of who will sign for loans to a Palestinian administration, which will not

be recognised as a government.

Mr Shochat said that Israel, which is contributing \$25m of aid and \$50m of political insurance or guarantees to Israeli investors over five years, was concerned about the possible shortfall of taxation revenues in the early days of a Palestinian authority and was stressing the importance of meeting recurrent expenditures currently paid for from tax revenues collected by Israel in the territories and subventions from the Israeli treasury.

"To enable the population in the territories to support the peace agreement they must see something change from the economic point of view in investments, job creation and standard of living," Mr Shochat said.

The minister said the steering committee would try to avoid approving projects which did not directly serve the pressing economic needs of the territories and would press governments to provide insurance cover to private companies which would have to be the engine of growth.

A separate Palestinian-Israeli ministerial economic committee would also meet soon, Mr Shochat said, to discuss the broader issues of macro-economic policy between the two sides such as migrant labour, harmonisation of taxation and currency.

Mr Shochat said multilateral agencies such as the World Bank and the European Development Bank would be the key implementing agencies of infrastructure projects.

## Native rights will apply to farm leases, says Keating

By Nikid Tait in Sydney and agencies

MR Paul Keating, the Australian prime minister, yesterday delivered a blow to the nation's farmers when he hinted that proposed native land rights legislation would allow claims against land held under pastoral leases.

The government had previously indicated that only mining leases would fall to extinguish native title, which, in turn, could "co-exist" with the mining lease and revive once the latter expired.

During parliamentary question time yesterday, Mr Keating said he expected only about 11 pastoral leases issued between the implementation of the 1975 Racial Discrimination Act and 1993 to be affected by the government's legislation.

But he said native title claimants could make claims under common law on all of

the thousands of pastoral leases issued before 1975.

The government has been battling to draw up a system for deciding Aborigine land claims, in the wake of a High Court decision last year. This ruling, known as the "Mabo" decision, threw out the notion that Australia was essentially unoccupied before European settlement, and suggested the Aborigine claims could be valid where there had been close and continuing association with the land in question.

The National Farmers' Federation campaigned strongly for a ban on native title rights on all pastoral leases. Aborigine groups, by contrast, argued that pastoral leases should be among the leases which did not extinguish native title rights.

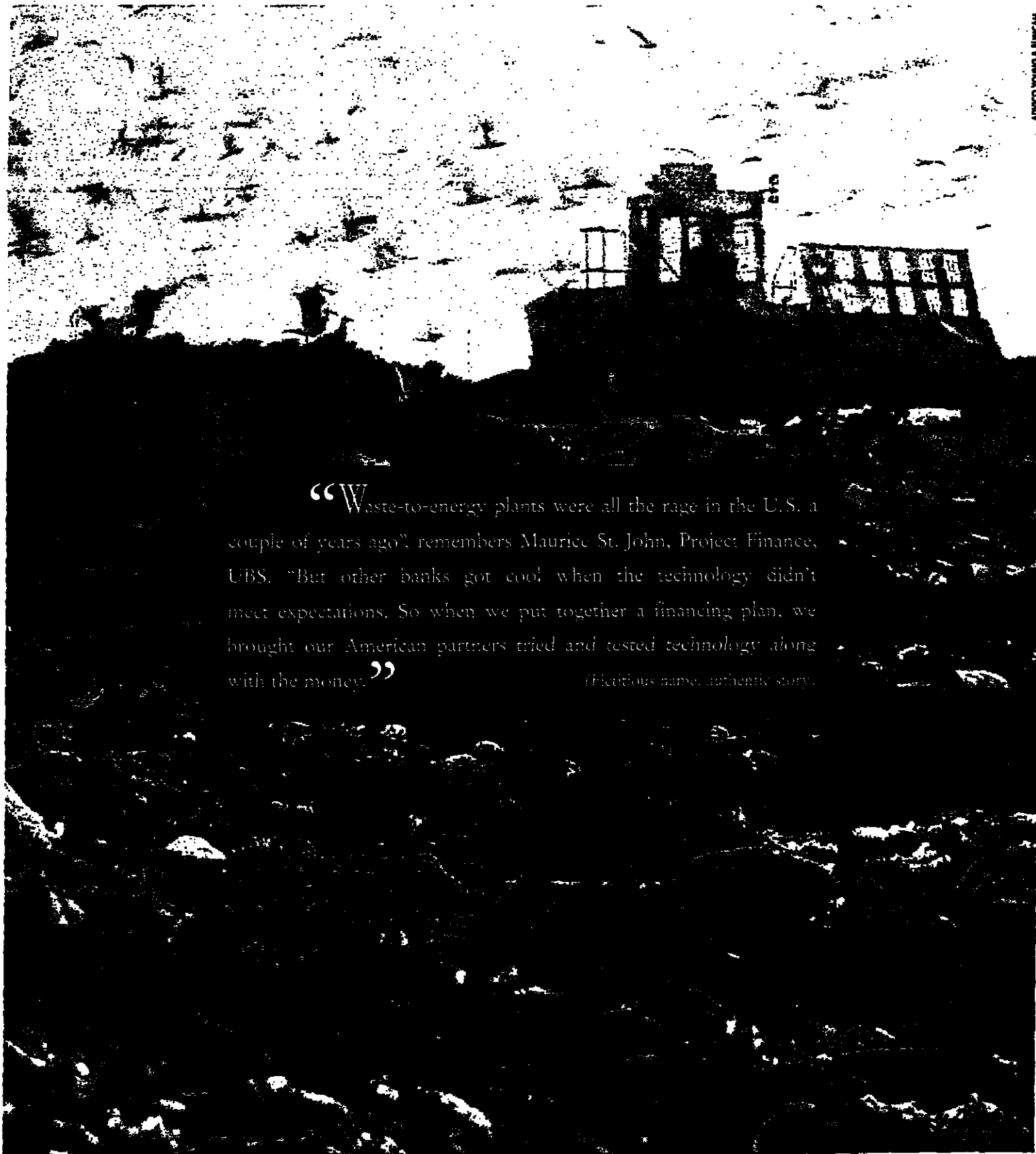
Mr Keating said yesterday the legislation would allow states to validate all pastoral leases without the lessees having

ing to disprove the existence of residual native title. Holders of pastoral leases on land covered by native title would have primacy, with no question of co-ownership.

"The only question then at issue is whether in validating these leases, we should go so far as to extinguish native title completely and forever, or whether we should leave the relationship between lease rights and native title to the common law," he said.

Under the envisaged legislation, native title claimants would still be able to claim residual rights through claims in the courts.

Mr Keating added he believed such cases had little chance. The Australian cabinet was meeting to discuss the draft "Mabo" legislation yesterday, and there have been suggestions it could be presented to parliament in a matter of weeks.



"Waste-to-energy plants were all the rage in the U.S. a couple of years ago", remembers Maurice St. John, Project Finance, UBS. "But other banks got cool when the technology didn't meet expectations. So when we put together a financing plan, we brought our American partners tried and tested technology along with the money."

(Fictional name, authentic story.)

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# Major seeks to heal 'special relationship'

By Philip Stephens,  
Political Editor

THE BRITISH government acknowledged yesterday the severe strains placed on its relationship with the US by the transatlantic dispute over the West's handling of the Bosnian crisis.

The admission, which followed President Bill Clinton's public criticism of Britain and France, came amid fears the row over the embargo on arms sales to the former Yugoslav province will sour the forthcoming Nato summit.

President Clinton's comments, in an interview with the Washington Post, also brought a call from Lady Thatcher, the former prime minister, for both sides to patch up the relationship to ensure the stability of the Western alliance.

The Anglo-American relationship had done more for the defence of freedom than any other alliance in the world, she said.

Mr Manfred Wörner, Nato secretary general, echoed Lady Thatcher's words, saying "finger pointing" between the allies served no purpose. France said the policy being carried

out in former Yugoslavia had been formulated with the agreement of Washington.

Despite obvious irritation at President Clinton's criticism of Mr John Major, the prime minister's office sought to play down suggestions that the dispute had damaged irreparably the so-called special relationship.

Officials said that Mr Major's warning to President Clinton that he could not "sustain" his government if the US insisted on lifting the arms embargo on the former Yugoslav province was a statement of the obvious.

In his interview President Clinton said the United Nations had erred in applying an arms embargo to Bosnia, as it gave the Serbs a major advantage, he said. He added: "I had the feeling that the British and French felt it was far more important to avoid lifting the arms embargo than to save the country."

Downing Street did nothing to disguise the fundamental nature of the disagreement, even though Britain has technically not ruled out acceding eventually to removal of the arms embargo. But amid clear embarrassment at the President's decision to

revive publicly the differences, British officials sought to emphasise that Bosnia was the exception rather than the rule in transatlantic relations.

Elsewhere in Whitehall, however, there was palpable concern that the Bosnia issue threatens to sour President Clinton's first visit to Europe for the planned Nato summit in January. The summit was intended to set a new framework for transatlantic security relations following ratification by the European Community of the Maastricht treaty and President Clinton's announcement of further US troop withdrawals from Europe.

## Britain in brief



### Amoco to expand in North Sea

The liberalisation of the British gas market has persuaded Amoco, the US oil company with extensive North Sea operations, to embark on a £160m investment programme to expand gas production in the southern North Sea.

The company said the new investment would extend the life of the Indefatigable Field, which lies 60 miles off the East Anglian coast. It would also be used to open up four smaller gas fields in the same area. Amoco said the expansion was only made possible because British Gas was willing to re-negotiate the original depletion contract.

### Rebel threat over rail

Ruling Conservative party rebel MPs yesterday warned the government not to try and reverse a House of Lords amendment giving BR a greater role in bidding for new franchises during the privatisation of the railways.

Ministers are now considering how to respond to the threat of a rank-and-file rebellion when the draft legislation returns to the Commons by early November. They fear that up to 15 backbenchers may vote against an attempt to overrule the upper chamber's amendment allowing BR to bid for rail franchises.

### Windfarm plan for Scotland

ScottishPower is seeking planning permission to build a 9.5MW windfarm near Largs on the west coast of Scotland. The £10m plant will have about 20 windmills. The government has set the two Scottish electricity companies a target of building 30-40 MW of new generating capacity using renewable resources by November 1994.

### Press 'to blame' on democracy

Mr Jack Straw, the opposition Labour party's environment spokesman, said the press shared a large part of the blame for the increasing lack of confidence in democracy. He argued that a decline in newspaper reporting of parliamentary debates had weakened the public's understanding of democratic government. While accepting that parliament could be more "user friendly", he criticised papers for underplaying the importance of politics.

### One in 20 are 'teleworkers'

An estimated one in twenty of Britain's employees are using so-called "teleworkers" - employees who work from home - according to a report published by the Department of Employment. A further 10 per cent of employers said they expect to adopt the system in the future.

## Alarm call over Britain's time

PUTTING clocks forward one hour in summer and winter, to bring in Britain in line with much of continental Europe, would cut down on road deaths and save more than £200m in health service costs, an independent report claimed yesterday.

Dr Mayer Hillman of the Policy Studies Institute in London said there is now an unarguable case for not altering Britain's clocks by one hour next Sunday.

He said yesterday: "The happiness of nearly everyone in the population can be enhanced at minimal overall disadvantage to anyone, simply by a majority of MPs casting their vote in favour of adjusting our clock times."

Dr Hillman argued that business would benefit from coming into line with Continental time zones.

Tourism could be 51bn better off and travel and communications throughout Europe would be improved if all the EC countries, apart from Greece and Ireland, adopted the same time zone.

His report, Time for Change, is supported by an NOP poll in which 59 per cent of respondents were in favour of switching to Central European time, with darker mornings and lighter evenings to provide more leisure time.

Dr Hillman also claimed that crime would be cut because opportunistic offences normally carried out under cover of darkness do not happen in the morning.

The report said savings on electricity bills for lighting would be more than £250m and generating costs would be reduced because of the lowering of demand in the afternoons.

Dr Hillman concluded: "Many of the grounds cited by the minority opposed to the change are weak or ill-founded."

He argued: "A common tendency has been to highlight the problems for people in locations of extreme latitude and longitude, and in situations occurring in the depths of winter."

He said that the government in 1971 had discontinued a three year experiment, keeping clocks an hour ahead of Greenwich Mean Time in winter as well as in summer.

Abandoning the project may have caused 20,000 deaths or injuries, said Dr Hillman.

The country is paying a high price for the "understandable" dislike of starting winter days with an additional hour in the dark, he added.

## Singer throws legal spotlight on Sony

By Michael Skapinker, Leisure Industries Correspondent

MR Justice Jonathan Parker is not the sort of judge who asks: "Who is George Michael?"

The singer sat before him in the High Court in London yesterday, listening to his counsel argue that his contract with recording company Sony should be declared unenforceable.

Mr Mark Cran, QC, George Michael's lawyer, came up with enough pop icons to stun a dozen judges, but Mr Justice Parker nodded knowingly. Madonna, Elton John - he knew them all.

Mr Cran said the singer's last few years have not been easy. Firstly, his contract has not made him as rich as some people think.

In the five years to the end of 1992, George Michael's gross profits were a mere £7.35m. Sony's gross profits for the same period were £52.45m.

The singer's profits were calculated after he had met recording costs himself, as required by his contract, but before he had paid his accountants, or - Mr Cran expressed some regret - his lawyers.

George Michael had four barristers representing him, including two QCs. The other

was Mr Jeremy Lever, QC, who had come to argue that the Sony contract was in breach of European competition law and should be declared void. Time ran out before his turn came.

Mr Cran's job was to argue that the contract represented an unreasonable restraint of trade. Its duration was particularly onerous.

Although it ends, in theory, in 2003, Mr Cran argued that it could continue for longer, as George Michael would be liable for damages if he had not delivered the six albums still required by the contract.

An additional injustice was that Sony could reject albums if it was dissatisfied with their contents. George Michael had decided he wanted to be a serious musician rather than a sex symbol. Sony had not given him sufficient support.

His fans did, though. Dewy-eyed, they sat in the public gallery - one in a seriously low-cut blouse - ready to endure hours of argument for their favourite serious musician. Most did not budge as Mr Cran explained the workings of withholding tax.

The few who left paused to bestow upon their idol a look of tender solicitude. As well they might: the case is likely to continue for 12 weeks.



George Michael arrives at court in London yesterday to begin the legal challenge over his contract

## BT projects £2bn video-on-demand income

By Andrew Adonis

BRITISH Telecommunications, the former state-owned communications company, could generate extra revenue of around £2bn a year by the end of the decade from video-on-demand services across its telephone network, according to a company memorandum.

That would yield it profits of around £600m, assuming a subscriber base of around 8m, each of whom would pay about

£250 a year at today's prices.

The memorandum - obtained by the FT's Telecom Markets newsletter - is further evidence of BT's determination to enter the home entertainment market, despite a government ban on it entering this field until at least 2001.

Last week's £22bn takeover of TeleCommunications Inc, the largest American cable TV company, by Bell Atlantic, the US regional telephone group, will strengthen BT's resolve, as

the biggest indication yet that the telecommunications, cable, and entertainment industries are converging.

BT argues that video-on-demand is not covered by the existing prohibition. If - as seems likely - its board decides to go ahead with a pilot project, it will face a protracted legal and regulatory battle, particularly with cable companies (mostly US owned) building combined phone and cable TV networks.

The Independent Television Commission does not believe that BT needs a special broadcasting licence to offer video-on-demand. But Ofcom, the regulatory authority, will have to clarify the terms of BT's licence. It has still not been approached by the company.

BT projections of the size of the home entertainment market are more ambitious than those of most City analysts. They appear to represent the views of those in the company

lobbying hardest for a video-on-demand service.

There is also doubt as to the technical capacity of the BT network to provide a video-on-demand service. It plans to test its capability next year.

Digitally compressed signals will go through the telephone wire at the same time as the spoken word, with decoders to translate them into pictures. If trials succeed, a pilot project will cover about 25,000 homes by the spring of 1995.

## Welsh agency chief quits after MPs' critical report

By Roland Adburgham, Wales and West Correspondent

THE CHIEF EXECUTIVE of the Welsh Development Agency resigned last night on the eve of the government's response to a critical report about the agency by the public accounts committee of MPs.

Mr Philip Head had been chief executive of the government-funded agency since January 1991. His resignation is one of a number of management changes expected to be announced today.

The PAC report, into the

WDA's accounts for 1991-92 and published in July, questioned the accountability of the agency and said poor management practices had developed both in personnel matters and financial control. Standards had fallen "well below" what parliament had a right to expect. The MPs called on the Treasury and Welsh Office to take urgent steps to ensure the problems were not repeated.

The report led to the WDA's new chairman, Mr David Rowe-Beddoe, setting up an internal inquiry under Sir John Caines, formerly permanent secretary

at the Department for Education. The findings of his inquiry are due to be published today, and the response of Mr John Redwood, the Welsh secretary, is also expected.

Mr Rowe-Beddoe, a businessman from the private sector who took over as chairman from Dr Gwyn Jones, will detail the measures being taken by the WDA board in light of the PAC report and the Caines inquiry. It is likely that the management structure will be revamped and some senior executives, in addition to Mr Head, are seen as vulnerable.

## Fresh fears of slowing recovery

By Peter Norman, Economics Editor

FEARS that Britain's recovery may be losing steam on a broad front have been given new impetus by a cautious report on retail trading from the Confederation of British Industry today and a gloomy Gallup survey, indicating a weakening of consumer confidence.

In its latest monthly survey of distributive trades, the CBI reported that retail sales rose in the year to September, but the growth was slower than in the preceding three months and disappointed traders' expectations.

Gallup said yesterday its lat-

est consumer confidence survey, conducted in the first 12 days of this month on behalf of the European Commission, found "a severe decline" in the public's assessment of Britain's economic performance and increased pessimism "on almost every economic indicator".

Together the two surveys suggest that Britain's recovery could be faltering in the high street as well as in the nation's factories and cast doubt on the underlying strength of UK consumer demand.

Following last week's figures showing falling manufacturing output and rising inflation during the summer, the surveys have added to the bad news in

the in-tray of Mr Kenneth Clarke, the chancellor, as he prepares his first Budget on November 30.

Official figures yesterday showed that Mr Clarke's budgetary problems are as intractable as ever: Britain's public sector borrowing requirement (PSBR) increased to £5.88bn in September from £4.01bn in September last year.

With a budget deficit of £24.2bn in the first six months of the current financial year, there was little to support the view of some City commentators that the PSBR in 1993-94 would be significantly below the £50bn forecast by the government in March.

The CBI said that last

month's slower growth in retail sales was offset by a strong growth in wholesale turnover and growth of sales in line with expectations in the motor trade. The report said all three groups expected further year-on-year growth in sales this month.

However, Mr Nigel Whiteaker, the chairman of the CBI's distributive trades panel, noted that retailers' expectations have been over-optimistic in five of the past six months.

More about the state of domestic UK demand will be disclosed in tomorrow's official figures for UK retail sales last month and Friday's provisional estimate of third quarter gross domestic product.

## Pollution 'threat' to bank lending

By John Gapper, Banking Editor

BRITISH BANKS warned yesterday that lending to some industries could be cut off or severely restricted if they were forced to bear financial responsibility for pollution by companies that borrow from them.

The British Bankers Association called for the uncertainty over legal liability for pollution to be resolved quickly, but said it would be counter-productive for banks to bear financial responsibility for polluting companies.

Sir Nicholas Goodison, the association's president, said it would be "intolerable" for banks to bear the multi-billion pound costs of cleaning polluted industrial sites in cases where they had taken possession of a company's assets.

The association's call followed a speech last week by Mr Tim Yeo, the British environment minister, in which he said that public funds could not bear the costs of environmental clean-ups in all cases where a company is unable to foot the bill.

Mr Yeo told the association that banks could not avoid

financial liability for pollution in all cases. He said that liability "should follow responsibility - possibly even to bankers under some circumstances".

The association said yesterday that there was already evidence in the US of banks refusing loans to companies in environmentally risky industries such as chemical-making because of the potential for liability.

Mr Mike Pummell, the head of Barclays' environmental risk management unit, said that environmental liability was a particular concern because banks could face an unlimited potential risk even if they lent a small amount.

The European Commission has issued a green paper on environmental liability, and the UK government is carrying out a review of legal liability for polluted land which is expected to lead to legal clarification.

Banks have been concerned that aspects of US law on liability could be adopted in Europe. In one case, a bank was held to be liable for pollution costs if it had the capacity to influence management by virtue of having lent money.

## RAF faces end to V-bomber saga

THE UK government's decision yesterday to abandon plans for a new air-launched nuclear missile means that the Royal Air Force stands to lose the nuclear role it has maintained since V-bombers went into service with Britain's first atomic weapons 40 years ago.

The project has been discussed, on and off, for six years. But Britain's experience in the field of nuclear missiles for aircraft is an accident-ridden saga going back much longer.

The first plan was a glide-bomb called the Blue Boar, with a 25-nautical-mile range. It was abandoned in 1954 in favour of a longer-range cruise missile, Blue Steel, which eventually went into service in two versions.

But plans were afoot to replace the V-bombers altogether with an indigenous ballistic missile, Blue Streak.

In 1960, when Blue Streak was judged unviable and scrapped, the Conservative government plumped for a US-designed air-launched missile, Skybolt. But two years later this project was scrapped, too, this time by the US.

The result of this was Britain's agreement to buy submarine-launched Polaris ballistic missiles from the US.

## David White on the series of setbacks which have dogged Britain's airborne nuclear role since the Blue Boar of the 1950s

tipped with British warheads. But the RAF kept its nuclear mission.

Its current WE177 gravity bomb - the RAF is believed to have about 100 left - has been in service even longer than Polaris. The new "stand-off" weapon - known in official jargon as a Tasm or tactical air-to-surface missile - was meant to replace it at the end of the decade. Instead, Britain's low-flying Tornados will have the WE177 bombs until well after the year 2000, and no stand-off missile.

In the cold war the rationale behind a stand-off weapon was that it would give aircraft a better chance of both reaching their targets in the Soviet Union and returning because it allows pilots to stand off, or rather stand back, from their target.

Three-way talks with the US and France, each a potential partner, began in 1983. A decision was expected the following year.

Politically, the prospect of a

breakthrough in Anglo-French collaboration bore particular significance, as a symbol of much closer defence ties. But Britain clearly preferred the US option, in the form of the SRAM-T, a nuclear version of Boeing's Short-Range Attack Missile. Then history repeated itself, when President George Bush terminated that programme in 1991.

This left another US option based on the SLAT, or Super-sonic Low-Altitude Target, made by Martin Marietta, as well as Aerospatiale's ASLP, a planned longer-range counterpart to the ASMP cruise missile in service with the French air force.

More recently, Britain was looking at ways of reducing the cost of the missile programme, generally estimated at £2bn-£3bn, by lowering its original ambitions for a 400-mile range.

Now that the cold war is passing, the importance attached to nuclear weapons has been greatly reduced. Nato

armies, including Britain's, have given up all their short-range nuclear arms in Europe. Britain and the US have also reduced their aircraft bombs. But the UK has not dropped the principle of fielding "sub-strategic" as well as strategic weapons.

The idea is to stop a potential adversary - such as a "rogue" country with a newly-made bomb - from gambling on the calculation that nobody would contemplate using the full force of strategic arms against it.

But the government has accepted the navy's arguments that it can fulfil both the strategic and sub-strategic roles with the Trident, the replacement for Polaris due to enter UK service in 1996. The US-supplied missiles, instead of carrying up to eight nuclear warheads, could be equipped with a single warhead.

One advantage of this argument is that the UK warhead for Trident has been fully tested. Britain cannot do any more tests as long as the US keeps up its moratorium, which may become permanent under a global test-ban treaty.

In any event, as one defence official admitted: "There would not be much support for any new nuclear weapon just at the moment."

## Record damages against Montagu

By John Mason and Andrew Jack

SAMUEL MONTAGU, the merchant bank, was ordered yesterday to pay record damages of £172m to the creditors of British & Commonwealth Holdings, the collapsed financial services group, after one of the longest pieces of litigation in City history.

Quadrax, a Delaware corporation controlled by Mr Gary Klesch, which employed Samuel Montagu as its advisers, was also ordered to pay damages of £10m to B&C.

Samuel Montagu could be ordered to pay a further £8m in December plus legal costs of about £10m arising from the litigation which began more than five years ago.

Mr Justice Gathouse ruled yesterday on damages to be paid to the creditors of B&C, which entered administration in June 1990. He had ruled in May 1991 that both Quadrax and Samuel Montagu were liable to pay damages to B&C.

Samuel Montagu said yesterday: "We were surprised at the liability judgment and we are very surprised at the quantum. We will be appealing. We

believe we are being pursued as the deep pocket."

The bank had put into court £15m, without admitting liability, which it had thought would be enough to reach a fair settlement.

The dispute arose over B&C's 1987 takeover of Mercantile House Holdings. This relied on an agreement that Quadrax would then buy Mercantile's wholesale broking division. However, after the bid, Quadrax did not have the money to make the purchase, which led to B&C making a damages claim for breach of contract.

B&C also sued Samuel Montagu for negligent misstatement, over assurances given to B&C by its then managing director and current deputy chairman, Mr Ian McIntosh. The judge ruled that Mr McIntosh knowingly and negligently took a risk in assuring B&C that Quadrax had the funds to make the purchase when the money was not available.

Mr Peter Phillips, of accountants Buchler Phillips, on behalf of the B&C administrators in the trial, said the award would represent 11p-16p in the pound for B&C creditors.



## New office suite

Today's introduction of a new version of Microsoft's "all-in-one" suite of business applications, Microsoft Office, reflects a significant shift in the sale and use of personal computer software.

Microsoft Office combines the US company's popular Microsoft Word for Windows word processor, Excel spreadsheet, PowerPoint business presentation graphics system and Mail electronic mail software in one package. The Office package will include improved versions of these applications and offer more "integration" features that allow information to be moved between applications.

Microsoft Office is a new approach to selling PC applications in "suites". Similarly, Lotus Development offers SmartSuite - combining its Lotus 1-2-3 spreadsheet, Ami Pro word-processor, Freelance Graphics business presentation program and ccMail electronic mail software. Borland International offers a Borland Office package, including Borland's Quattro Pro spreadsheet and its Paradox database and WordPerfect's WordPerfect for Windows.

For users, these "office" products are a way to buy a set of applications for up to a quarter of the cost of buying individual applications packages. However, there are also other benefits. Microsoft Office users can use a function from one application while working in another.

Users can also benefit from the increasingly consistent design of applications incorporated in suites. Menu items are largely common across all the applications in a single office suite. The popularity of these "suites" of programs is growing. Microsoft makes more than half its US applications sales in the form of Microsoft Office (for the Apple Macintosh and Microsoft Windows). In the UK, Microsoft Office accounts for about 70 per cent of its applications revenues.

For manufacturers, office-suite products may mean slower revenue growth but they can boost sales of parts of the suite that might not otherwise be as successful - while tying users to a single software company's vision of how applications should work together.

Geoff Wheelwright

The humble bacon rasher may not look like a hi-tech industrial product, but the drive to provide the consumer with leaner cuts of pork has spawned a highly sophisticated pig-breeding technology in which Britain leads the world.

Today's pigs are no longer the fatty cinderellas of the meat business, but are as lean as chickens. They are quicker to grow than their ancestors and produce more piglets. Future generations could be made resistant to many fatal diseases at birth by manipulating their genes *in vitro*.

Cillian Shephard, agriculture minister, recently praised Britain's pig breeders for "revolutionising" the kind of animal produced in response to consumer demand.

"In the past 20 years, we've reduced the backfat levels on our pigs by half and improved the feed conversion rate by 30 per cent," says Stephen Curtis, managing director for production at the National Pig Development Company. The feed conversion rate is the efficiency with which a pig converts its food intake into weight gain.

"The UK is a forerunner in all aspects of pig technology worldwide and we're seen as a source of the most advanced genetic breeding stock," says Tony Walker, senior pig consultant at Adas, the government's farm advisory service.

Leading pig breeding companies in the UK export their animals across the globe and five companies have developed links with leading breeders in the large US market in recent years.

NPD and other pig breeders have produced a generation of sleeker pigs by using rigorous systems of cross-breeding where only top animals are selected for reproduction. The process is monitored and recorded on computer, creating a database of pig information stretching across the generations.

This information not only helps to create leaner pigs, but also improves farmers' profit margins since they can cut food supplies as hybrid pigs become more efficient at gaining weight. In a further attempt to improve margins, breeders have also been looking at increasing the number of piglets born to sows each year.

NPD hit the headlines a year ago with the launch of a new hybrid, the Manor Meishan pig. The pure-bred Meishan - a phenomenally ugly breed of Chinese pig - has strong motherly instincts, producing more piglets than its western counterparts with more teats and milk, nurturing them well to maturity. But its meat is extremely fatty.

When crossed with NPD's sleeker, slimmer offspring, it produces a lean pig. Dubbed the "aristocrat of



Dubbed the aristocrat of pigs, the hybrid Manor Meishan can produce up to 14 piglets per litter

## Going the whole hog

Britain's pig breeders have created a lean animal which is the envy of the world, writes Deborah Hargreaves

pigs" by American buyers, the Manor Meishan produces 14 piglets per litter compared with 11 to 13 for a conventional British breed.

NPD carefully records the number of piglets born to each mother. It incorporates this information, along with data on weight gain and muscle formation, into an index setting estimated breeding values for each pig. This index is used to rank each pig so that only the top five to 20 per cent are used for breeding.

More than 22,000 pigs are tested by NPD every year - the company records their weight gain over 50 days and measures their muscle growth with ultrasonic scanners.

The plethora of information on every pig that passes through NPD's units extends to breeding animals that are sent overseas. In this way, the UK management can advise franchisees as far afield as the Philippines and South Africa on which pigs to use for breeding.

The technological monitoring process is accompanied by traditional stockman skills where farmers assess the strength of a pig's legs,

for example. "I can see all the figures on screen and say 'that pig grows wonderfully', but the quality controller might point out that its legs are too fragile," says Sam Hoste, NPD's geneticist.

NPD is trying to institutionalise the stockman's intuition by asking them to give a score to the pigs' physical attributes such as strong legs. These can be recorded on computer and incorporated into the ranking process.

One way of stepping up the monitoring process is with a new system of electronic ear tags which NPD is considering introducing this year. These register a pig's number on the computer when it passes through weighing scales. Farmers can pick up the pig's number with an electronic wand, tapping additional information on that pig into a hand-held computer. These details can follow the animal through the slaughterhouse to the supermarket shelf, allowing the consumer access to a variety of information about the way the pig was raised.

Pig breeders are also taking their

first steps into the science fiction world of molecular genetics, with DNA testing for stress genes that can cause pigs to die young. EC pig breeders are supporting a project to plot a map of the pig's genes. UK companies have also started a joint initiative to sponsor research into how the information on genes can be applied - for example, they want to isolate the series of genes responsible for reproduction.

This will allow breeders to increase litter size - Curtis says he has bred a Meishan superpig capable of producing 40 piglets a year, against a national average of roughly 21. "It would take us about 10 years to get to a point where we are producing 40 pigs a year at a commercial level, but with gene mapping we can probably do it in three," he says.

But this development may be delayed by pressure from animal welfare groups for less intensive farming methods. While consumers are eager to eat more lean meat, they want to be sure it comes from a happy pig.

## Technically Speaking

## Long on vision, short on substance

By Michio Nakamoto

THE Japan Electronics Show, which has just taken place in the appropriately futuristic surroundings of Makuhari Messe, the exhibition centre on the outskirts of Tokyo, should have been a perfect occasion for Japan's consumer electronics makers to let the world know that despite taking a beating for the past three and a half years, they are back on their feet.

Instead, the show seemed to confirm suspicions that the industry is still some way away from living up to its vision of a grand new world of electronics that would add an extra dimension to the role these gadgets play in our everyday lives.

It is true that Sony was there with its flashy new MiniDisc players in all shapes and sizes, competing for attention with various models of digital compact cassette player. Matsushita proudly displayed a TV set that is much thinner than conventional sets, while Pioneer sought to take karaoke entertainment to new heights.

But when it came to bright ideas for innovative uses of electronics, the show was long on vision but still somewhat short on substance. Take three-dimensional displays, for example - one of the features of the show which attracted long queues. Sanyo and Toshiba both displayed three-dimensional, high-definition projection systems.

The attraction of three-dimensional film should be irresistible, given that the industry has (tried to) develop this since the 1950s. Technically, even the Sanyo system, which requires special glasses, provides fairly impressive three-dimensional video. Sanyo has also developed a system with NHK, the public broadcasting corporation, which does not require special glasses, although it would require special broadcasts.

Sanyo says its system still needs work, but it would like to develop a system for home entertainment. Toshiba explains that as soon as

2000, TV viewers could be watching three-dimensional programmes either in packaged form or on one of the substantial number of satellite channels that are expected to be operating by then.

The question is, given the failure of high-definition TV to take off in its current form, is there room, even 10 years from now, for another entertainment format that would require special programmes to be produced for broadcasts or video?

Another promising highlight of the show was digital video, which takes visual media into the digital age. Here, the immediate benefits are more obvious, in that digital video will allow films and entertainment footage to be recorded on an easy-to-use compact disc that allows random access. But again, video disc requires the creation of a new library of entertainment software which competes with the countless video footage that already exists, not only in the studios but in video rental shops worldwide.

The Electronics Show was also an occasion for companies to exhibit their personal computing and communicating tools, from Sharp's Expert Pad Personal Digital Assistant, which was co-developed with Apple Computer, to Toshiba's Personal Information Tool, XTEND.

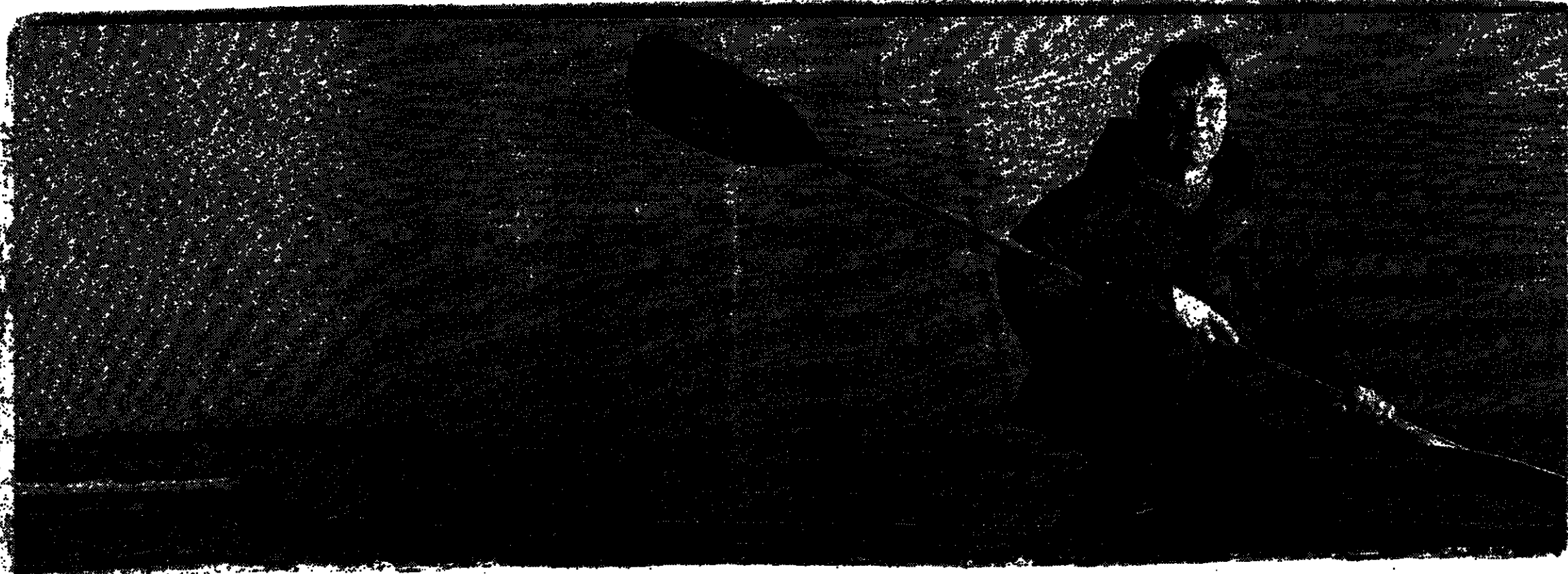
As far as these much-heralded personal devices go, the technology has some way to develop. Neither Sharp's nor Toshiba's handy gadgets on display were very good at recognising handwriting. Unless these tools can do more than replace a personal organiser, it would be hard to justify the considerable trouble of learning how to use them.

The Electronics Show left the impression of an industry with bright ideas but still needs to do a lot of work in making those ideas a reality for the consumer.

Without the right software available, not only to the technically attuned but to the ordinary consumer, and without the necessary infrastructure in place to deliver that software, it is difficult to escape an uneasy feeling that the message has been left behind by the messenger.

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"During the week I design pumps and mixers that protect rivers and lakes from pollution."



On weekends I get to enjoy my work."

Hjalmar Pries  
ITT FLYGT, STOCKHOLM

Hjalmar Pries has a passion for canoeing and for the past 28 years he's been giving back to his favourite sport as an inventor and designer at ITT Flygt.

ITT Flygt, part of ITT Fluid Technology, is the originator and largest manufacturer of heavy duty submersible pumps and mixers. But it's just one of eight diverse businesses that make

up today's ITT Corporation. This, along with our investment in Alcatel Alsthom, makes us a global, U.S. \$22.0 billion enterprise employing over 100,000 people around the world. In fact, one out of three ITT employees lives and works in Europe. And whether it's ITT Automotive, ITT Defense and Electronics, or ITT World Directories, these companies and all of our businesses

share a common goal: To improve the quality of life. Because it's not just how you make a living that's important, it's how you live. Just ask Hjalmar Pries. For more information about ITT phone us on: 322 643 1449. Or write to: ITT Europe, Ave Louise, 480 B-1050, Brussels, Belgium.

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## BUSINESS AND THE LAW

## Farm traders slip on butter oil case



The European Court of Justice has confirmed that agricultural traders cannot escape the commercial risks inherent in exporting to command economies such as the former Soviet Union.

The ECJ made its ruling in answer to questions raised by the English Commercial Court in the course of proceedings brought by An Bord Baine and Inter-Agra against the Intervention Board for Agricultural Produce.

Inter-Agra had contracted to sell 15,000 tonnes of butter oil to Prodimorg, a trading organisation in the former Soviet Union. It was a condition of the contract that the butter oil conformed with the Soviet standards applicable to butter for conversion into butter oil.

An Bord Baine, in turn, had contracted with Inter-Agra to supply butter for export to Prodimorg and to lodge the tendering security required by EC rules. Accordingly, it successfully tendered for 1,000 tonnes of salted butter held by the Intervention Board for Agricultural Produce.

Its tender was accompanied by a written undertaking that the butter would be exported to the USSR after being processed into butter oil. At that time the butter satisfied Soviet standards which had been in force for 30 years.

However, the Soviet authorities changed the quality requirements for imported butter oil. It was impossible for acceptable butter oil to be produced from the butter which had been the subject of the tender. The change in quality requirements was not published or communicated to the tender party or intending exporter.

The ECJ held that the concept of *force majeure* must be interpreted by reference to the legal context in question as it does not have the same scope in the different fields of Community law.

In the context of EC agricultural regulations, the nature of the public-law relationships between traders and the national administration, as well as the aims of the regulations in question, must be taken into account.

Accordingly, the ECJ confirmed previous rulings that the concept

of *force majeure* was not limited to absolute impossibility but had to be understood in the sense of abnormal and unforeseeable circumstances, outside the control of the trader concerned: the consequences of this, in spite of the exercise of all due care, could not have been avoided except at the cost of excessive sacrifice.

The ECJ said that although the amendment of Soviet law was a circumstance outside the control of the trader concerned, it constituted a usual commercial risk in commercial transactions with an organisation of a command economy. It was not an abnormal and unforeseeable event. A prudent trader could take precautions.

*C-124/92: An Bord Baine Co-operative Ltd and Compagnie Inter-Agra SA v Intervention Board for Agricultural Produce, ECJ 6CH, 13 October 1993.*

Japanese distribution companies and dumping calculations.

The ECJ has rejected an attempt to overturn its previous approval of the European Commission's approach to calculating the domestic selling price of Japanese companies which distribute their products in Japan through local sales subsidiaries.

The ECJ has confirmed that the Commission is right to use the sale price charged by the subsidiary to the first independent customer rather than the price at which the sales companies buy from the manufacturing division since they belong to the same corporation.

Matsushita challenged the 26.3 per cent definitive anti-dumping duty imposed since January 1990 by the EC on exports of its CD players from Japan. It argued that the sales from its manufacturing division to its sales subsidiaries were sales in the ordinary course of trade and should be used by the Commission for the purpose of determining if dumping existed.

The ECJ agreed with the Commission that the only sales in the ordinary course of trade were the sales by the subsidiaries since they formed a single economic unit with the rest of the Matsushita group.

*C-104/90: Matsushita Electric Industrial Co Ltd v Council, ECJ 6CH, 13 October 1993.*

BRICK COURT CHAMBERS, BRUSSELS

There is a commercial current running on US television that says a lot about American public opinion of lawyers. The advertisement, for a well-known brand of beer, features two good ol' boys in a bar fantasising about a rodeo in which the cowboys rope lawyers instead of cattle - a bell goes and out of the pen comes not a steer but Herman, a 17-stone tax attorney.

In normal times you would expect American lawyers to laugh it off. But these are not normal times for the US legal profession. Not only is the public standing of lawyers at an all-time low, in recent years they have increasingly found themselves the target of multi-million dollar legal actions, following the failure of financial institutions to which they acted as advisers.

To accountants, these actions have become all too familiar on both sides of the Atlantic. This week in the UK, for example, the administrators of Polly Peck, the failed fruit-to-electronics group, will issue a writ against the company's auditor, Stoy Hayward, in an attempt to recover up to £370m allegedly siphoned off by the fugitive former chairman, Mr Asil Nadir.

But for lawyers, being made the systematic target of actions for damages for alleged professional negligence is a new experience.

Many of the claims against lawyers in the US have arisen out of the recent savings and loans (building societies) crisis. Unable to recover much from more than 700 savings and loans institutions and hundreds of banks which have been closed by federal regulators over the last four years, federal agencies and investors have looked increasingly to lawyers and accountants as a source of compensatory damages.

Among the failed societies, Lincoln Savings & Loan stands out as the source of more claims against lawyers and accountants than any other institution. Altogether, six law firms, partners of two other law firms and three leading accounting firms faced claims based on their work for Lincoln and its parent, American Continental Corp.

The failure of Lincoln prompted civil claims by bondholders of ACC and two federal agencies, the Resolution Trust Corporation and the Office of Thrift Supervision (OTS). So far \$338m has been recovered from the professional advisers - roughly \$180m from the lawyers and \$158m from the accountants.

According to Mr Harris Weinstein, of US lawyers Covington & Burling, the claims against the lawyers in the Lincoln case were similar to those in many of the other cases growing out of the US savings and loan crisis.

There were allegations of conflict of interest, such as that lawyers had

## Tied up in claims for damages

US lawyers are concerned at the growing trend to sue them when financial institutions fail, says Robert Rice

inappropriately represented the parent, subsidiary and affiliate, when their interests clearly differed. There were allegations that the lawyers proceeded improperly in the face of evidence of intended illegal conduct by the client. And there were allegations that lawyers ignored their knowledge of the facts in writing legal opinions.

In addition, Mr Weinstein told the International Bar Association meeting in New Orleans last week, the OTS actions against Kaye, Scholer and James Fleischer underlined that lawyers can also be held responsible for a client's failure to disclose information to its primary federal regulator.

Why, if all these allegations are true, are lawyers in general so worried and complaining so loudly about the treatment of a handful of their colleagues, whose professional behaviour appears to have been below the required standard?

The lawyers' first concern is that the savings and loan litigation has shifted the goalposts of attorney/client privileges.

In the action brought against law firm Jones, Day in Arizona, assertions by the firm that it could not be held liable for merely advising its client were rejected by Judge Bilby.

The line between maintaining a client's confidence and violating the federal securities laws was clearer than Jones, Day thought. An attorney should withdraw when he knows a client is engaged in a

**In reality, it is often not obvious that the lawyers' advice will facilitate the client's deception**

course of conduct designed to deceive others, and where it is obvious that the attorney's compliant legal advice may be a substantial factor in permitting the deception to continue, the judge said.

But as lawyers point out, Judge Bilby's analysis of the correct course of professional conduct assumes that a lawyer knows that a client is engaged in deceit and that



## Expensive suits

Settlements arising out of the Lincoln Savings & Loan case

DEFENDANTS Lawyers/accountants	PAID TO US GOVERNMENT \$m	PAID TO ACC BONDHOLDERS \$m
Jones, Day	51.0	24.0
Kaye, Scholer	41.0	20.0
Mariscal, Weeks	5.0	2.0
Parker, Miliken	undisclosed	4.65
Sidley & Austin	7.5	4.0
Troutman, Sanders	20.0	n.a.
Lee Henkel	0.05	n.a.
Michael Gardner	0.35	n.a.
James Fleischer	0.6	n.a.
Arthur Andersen	20.0	30.0
Deloitte & Touche	n.a.	8.5
Ernst & Young	36.0	63.0
TOTAL	181.50	156.15

Source: Covington & Burling

it is obvious that the attorney's advice will facilitate the illegal scheme. In reality, however, it is often difficult for lawyers to know when a client is engaged in fraud, and far from obvious that their legal advice will facilitate the deception.

And how far should the lawyers go? Should they simply withdraw, or should they inform the regulators when they suspect a client may be planning something illegal?

Lawyers say such a change in the attorney/client relationship would inevitably lead to defensive lawyering, rather than medical negligence actions in the US have led to defensive medicine. Deals that would have been legal will not be done. Shareholders who could have expected to profit from those deals will suffer.

The second concern of the lawyers is shared by the accountants. It is that the prospect of expensive awards of damages, coupled with the laws of joint and several liability which allow any successful plaintiff to sue any one of the defendants found to have acted wrongfully for the entire amount of the

judgment, will make it impossible to obtain sufficient professional indemnity insurance cover.

If professionals continue to be seen by plaintiff's lawyers as "deep pockets" offering the best prospect of compensatory damages for their clients, then some large law and accountancy firms could face ruin.

Fears along these lines were expressed in New Orleans by Mr

**If professionals continue to be seen as 'deep pockets', some large firms could face ruin**

Tim Lawrence, the partner responsible for professional indemnity insurance arrangements for accountants Coopers & Lybrand. Accountants inevitably made mistakes and errors of judgment from time to time, he said. They could find themselves as auditors of a company that turned out to have been run by crooks. But they did not proceed on the assumption that everyone they

were dealing with was dishonest. Yet, when in good faith they found they were inadvertently involved in a den of thieves, they were often accused of fraud, gross negligence and of being a Racketeer-Influenced and Corrupt Organisation (RICO). He asked whether the plaintiff's lawyers really believed that, or whether they were simply prepared to adopt the legal device best calculated to maximise the damages recoverable by their clients, and their own contingent fees.

Mr Lawrence also wondered where the morality lay in allowing claimants to recover far more than they had lost. The concept of triple and punitive damages in the US could leave shareholders in a failed company better off than they might have been if the company had been successful.

And where was the fairness in the laws of joint and several liability that allowed Coopers recently to find itself the primary target for a claim where, he said, on any concept of equity, no one could have attributed more than 10 per cent of the fault to the accountants.

Mr Lawrence called for urgent reform of the law of joint and several liability so that the amount a professional person had to bear had some relation to his or her proportionate responsibility for the loss suffered.

Already it was impossible to insure a big accounting firm for a sum adequate to cover the risks it faced, he said. If something was not done, "people of the right quality will no longer be prepared to attempt the task of auditing the financial statements of any company with less than an AAA [credit] rating. The crooks will then have unfettered opportunity to bamboozle the third-rate auditors that remain."

It is difficult to judge the significance of the current claims for damages facing accountants and lawyers in the US. Some believe that it is a temporary phenomenon. Mr A Sommer, a partner of US law firm Morgan Lewis & Bockius and former commissioner at the Securities and Exchange Commission, believes lawyers' present problem is tied to the savings and loans crisis, and that it is just a one-off matter.

Others disagree, however. Mr Mel Weiss, a New York plaintiff's attorney, believes it is right to target professionals who fail in their professional duty. And he also warned that what America had experienced today the rest of the world would experience tomorrow. "You're going to see what we have here exported internationally," he predicted.

Soon it might not be only American lawyers being roped in television advertisements.



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Companies that put the client first have much to gain,  
reports Charles Batchelor

## Keeping the customer happy

Dee Swift recalls the customer who towed his caravan into the company car park and scratched two cars while parking. When asked about the incident, the customer said that if a member of the company's staff had parked his caravan for him then he would not have got into difficulties.

Some might have regarded this response as bare-faced cheek. Swift, marketing manager of Harringtons Caravan & Leisure World, took it as a compliment to her company's policy of customer care.

Even if raising people's expectations can sometimes rebound, Swift believes that going out of your way to treat your customers well pays off.

Harringtons, a family-owned business based in the Delamere Forest, Cheshire, has expanded and remained profitable throughout the recession. It made sales of £9.1m in 1992/93 and expects a further £1m increase in the current year.

According to the business text books it should be no surprise that a small firm takes good care of its customers. In theory the small business is closer to its customer than the large company, is very service-conscious and innovative, comments David Kirby, professor of entrepreneurship at Durham University Business School.

"In reality, though, this is not always the case," he told a London Chamber of Commerce seminar last week. Small businesses can be just as remote from their customers as large.

Among the attributes of the "winning company" identified by the US management guru Tom Peters are: a willingness to flatter its customers;

ers; a consciousness of the importance of service and a high degree of responsiveness to what the market wants.

Customer service can start with the obvious. Michael Pritchard, owner and managing director of the Spar Foodliner, a supermarket in Treherbert, a village in the Rhondda Valley in south Wales, puts a great deal of effort into reducing the waiting time at his check-outs.

Pritchard claims an average waiting time of 2½ to three minutes and a maximum of five minutes, compared with much longer delays at his larger rivals. Staff are switched from refilling shelves to the check-outs when queues start to build up.

Pritchard says he puts an emphasis on customer service because his is a small supermarket in competition with much larger stores owned by the big chains. The Spar Foodliner has a turnover of £1.6m and employs 28 people.

But the innovative business owner can take customer care to considerable lengths. Pritchard

runs a bus service up the valley every Wednesday to bring in customers without cars. This was an idea borrowed from the larger supermarket chains but Pritchard's service for handicapped customers is probably unique.

Not only is the store designed to allow wheelchair access, Pritchard's staff will make up orders for disabled customers and accompany them round the aisles if necessary. Some other local stores positively discourage the handicapped, says Pritchard.

Harringtons Caravan puts a lot of effort into fostering long-term relationships with its customers. It offers a free replacement caravan for up to four weeks if a customer's caravan is damaged in an accident, an instructional video with every caravan purchase and a 24-hour telephone helpline. Caravan interest afternoons are held on the last Wednesday of each month, attracting up to 100 people, while a newsletter goes out three times a year to 20,000 people on its mailing list.

But the all-important first impression that a customer receives will depend on how he or she is treated by the staff. Harringtons Caravan expects its 110 employees, from managing director to caravan cleaner, to greet customers with a smile and a "good morning" or "good afternoon".

John Maddison, owner of a garden centre in Chester-le-Street, County Durham, until he sold it last November, says he insisted on an "eyes up" policy. Staff weeding beds or sweeping the floor were required to look up and greet customers.

But ensuring your staff make customers feel welcome is only the outward manifestation of an approach that must be grounded in a well thought out policy on customer care. This should start with research, or at least observation, of what customers want.

Harringtons Caravan set up its own subsidiary to carry out research into its sector of the market in 1985. The company now holds regular lunchtime meetings with small groups of customers to ask them their views of the company



and the caravan industry. But a weakness of this method is that people are reluctant to be critical.

Maddison used a variety of approaches to stay close to his customers, including surveys carried out by business school students. But he also practised "management by drinking cups of coffee". Selected customers would be offered a

voucher guaranteeing a free cup of coffee in the garden centre's coffee bar. Maddison would then chat to them while they relaxed.

Establishing an effective policy on customer care requires a professional approach to training and motivating staff. Maddison says he always made sure that his most junior employee - the boy or girl

sweeping the floor and hence the person most likely to be asked by customers - knew from day one where the check-out, the coffee bar and the toilets were.

Harringtons Caravan trains its staff on the technical aspects of caravans but also puts a lot of effort into career appraisals, seminars and an annual "think tank" for each department to discuss ideas.

Training people to be welcoming and friendly is difficult and companies depend more on recruiting the right sort of people at the outset.

Spar Foodliner has a low turnover of staff which means they can be "brought into the family way of doing business", says Pritchard.

The benefits of these efforts should come in loyal customers who, over the years, will spend large sums with the company. Existing customers are far easier and cheaper to reach than new ones while satisfied customers will promote a company for free. Dissatisfied customers, in contrast, talk to far more people.

But what does it cost? Many small companies appear to be vague about the cost of their customer care programmes, although Pritchard accepts that his policies mean his staff achieve a lower productivity than the larger supermarket chains. Training is also expensive, but is essential in many businesses for reasons other than customer care.

Building a reputation for customer care takes time and commitment. "Customer care is not just a gloss," says Kirby. "It goes right to the heart of the business." It can also provide an invaluable edge in increasingly competitive markets.

## A chance to influence the Budget

Budgets are not only an occasion for the government to set the outlines of its economic policy; they are also an opportunity to modify the mass of detailed legislation which affects business.

Small firms, with their limited financial and managerial resources, are sensitive to this detail and keen to influence its drafting. The organisations representing them have therefore jumped at the opportunity of two Budgets in one year to put their case.

At this stage in the UK's halting recovery from recession, the legislation which affects the ability of small firms to raise finance have taken on a particular prominence. With the banks still nursing sizeable losses on their small-business investments and the venture capital industry facing its own cash shortage, alternative sources of finance are important.

The main areas of concern for the business lobbyists are:

● A replacement for the Business

Expansion Scheme which will be wound up at the end of this year. For all its limitations, the BES channelled additional equity finance to small businesses and they are keen to find an alternative.

As the Confederation of British Industry points out, the tax system treats equity investment in unquoted companies less favourably than other investments. It suggests two alternatives; up-front tax relief for personal income invested in business assets on the lines of relief applied to private pension scheme contributions; or relief on the returns from direct investment in a business in the same way as dividends and capital gains from shares included in a personal equity plan (PEP). These reliefs would only be available on

investments in unquoted companies with shareholders' funds of less than £2m.

An alternative suggestion from the British Venture Capital Association is for a broadening of the scope of PEP tax reliefs to include investments in unquoted companies. Since the sums required would be considerably larger than the amounts at present covered by PEP relief, individuals should be eligible for relief on amounts of up to £50,000 a year. Companies specialising in asset growth and involved in areas such as property and wines would be excluded.

● The cost of raising equity finance. As present companies may claim tax relief on the costs associated with raising debt finance but not on the costs of issuing equity. Extending relief to equity would be useful for the

small company planning a stock market flotation, suggests the City Group for Smaller Companies.

Cisco was set up to find a replacement for the Unlisted Securities Market, which is threatened with closure. The idea of relief for the cost of raising equity has also won the support of the Institute of Directors.

● Capital gains tax. The equalisation of capital gains tax and the top rate of income tax at 40 per cent have given an added importance to a tax which has always loomed large for the entrepreneur. Calls for the complete exemption of capital gains from tax have come from the British Chambers of Commerce, which want a five-year cut-off, and the British Venture Capital Association, which seeks a two-year deadline.

The Federation of Small Businesses wants flexibility in the treatment of capital losses and gains while the Institute of Directors wants businesses to be able to carry losses back for three years. Unused exemptions should be eligible to be carried forward without time limit.

A further easing of the rollover relief introduced in the March budget is sought by Cisco and the CBI. Cisco wants relief to be extended to gains which are reinvested in small quoted companies (as well as unquoted businesses) while the CBI wants relief extended to capital gains made from any source, provided they are reinvested in unquoted companies.

● Value added tax. In theory VAT should be a neutral tax for everyone in business until the

goods reach the final consumer. In practice, businesses have been hit by the traditional method of settling VAT, requiring the tax to be paid regardless of whether the client has paid his bill. This system penalises the supplier and gives an unfair cash flow advantage to the slow payer, claims the Federation of Small Businesses.

The Federation and British Chambers of Commerce want an extension of cash accounting, which does not require VAT to be settled until the customer has made payment. Smaller companies may already opt for cash accounting but the federation wants all VAT payments to be made on a cash basis. The chambers want the size of a company eligible to cash account raised from £250,000 of sales to £2m.

● Capital allowances. The era of 100 per cent first-year allowances, abolished by the government in 1984, is now a memory, but some of the lobbyists hope for a return to a more generous regime.

Hoping to take advantage of the temporary easing of the allowances regime in 1992, the CBI and the chambers of commerce are calling for further concessions. The CBI wants companies to be able to write off up to £200,000 of spending on plant and machinery in the first year or 40 per cent of their total spend, whichever is the greater. The chambers want the 40 per cent first-year allowance extended to the hard-hat retailing sector.

The size of the Budget deficit means Chancellor of the Exchequer Kenneth Clarke has little room for manoeuvre. Small firms believe some concessions are needed if they are to play a full part in the recovery.

CB

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A notice has recently been placed in the Official Journal of the European Communities. Proposals are sought from institutions lawfully able to provide banking services in the UK. The proposed contract term is five years or three years plus options for two further 12 month extensions from summer 1994. Institutions interested in tendering should have regard to the Notice in the Official Journal and respond by 8 November 1993.

Further information can be obtained from: Mr G D Laing, Home Office, Room 920A, 50 Queen Anne's Gate, London, SW1H 9AT. Tel: 071 273 3695. Fax: 071 273 2954.

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## PEOPLE

## McKinnon's new job

Sir James McKinnon, former director-general of the gas industry watchdog Ofgas, has become chairman of Ionica, the Cambridge-based telecommunications company.

The appointment is a coup for Ionica, which is building a national telecoms network to rival BT and Mercury, using radio technology. Ionica is looking to McKinnon to give some edge to its strategic planning. Fresh from his battles to breathe competitive air into the gas market, McKinnon says he is "keenly interested to participate in the growth of competition in other markets".

In telecoms, competition is growing so quickly that Ionica may have difficulty finding a niche. Despite its confidence that fixed radio links will offer a cheaper means of communication than cable or cellular systems, the company is more than a year away from offering a service, and it will come on stream only after a third national operator - Energis -



has been launched on to the UK's telecoms market. Meanwhile, at the local level, cable companies - mostly US-owned - are rapidly seducing customers from BT with all-in telephone/cable TV packages. At any rate, McKinnon could not hope for a broader-based company. Its shareholders include Yorkshire Electricity, Telecom Finland, Robert Fleming Investment Trust and Kingston Communications, the Hull telephone company.

## Non-executive directors

Richard Hooper, a consultant in media and telecommunications, will next month join the board of MAI, the television, advertising and financial services group 20 years after his first involvement with the company.

From 1973-77 Hooper was managing director of Mills & Allen Communications, part of Mills & Allen, which eventually metamorphosed into MAI. It was during his early stint at Mills & Allen Communications that Hooper met the present chairman of MAI, Lord Hollick, the Labour Peer.

Since then Hooper, a former BBC trainee and Open University producer, has been director of Prestel, chief executive of value added systems and services at British Telecom and founding managing director of Super Channel. Hooper's experience of television should come in useful at MAI, which holds the majority stake in Meridian Broadcast-

ing, the ITV franchise-holder for the south of England. Lord Hollick is also interested in the possibility of bidding for the Channel 5 franchise if a national channel is advertised. Hooper, 54, replaces Sir Graham Day who retires from the board having been a non-executive director since 1988.

■ Sir Idris Pearce, chairman of English Industrial Estates and a former managing partner of Richard Ellis, at DISCO (UK).

■ Per Risberg, president of Saab-Scania Combitech, at PEEK.

■ Patrick Noble has resigned from BERRY BIRCH & NOBLE.

■ Michael Andrews, a director of Bluebird Toys, Credit Lyonnais Capital Markets, Michael Page Group and McLeod Russell Holdings, and Peter Ford, formerly a director of P&O, at HAMBRO COUNTRYWIDE.

■ Munro Sutherland, senior vice president and cfo of Cairn Energy USA, at CAIRN ENERGY.

■ TAYLOR WOODROW has appointed Nick Godfrey to the new post of group financial controller as part of its strategy to strengthen financial control and reporting from its subsidiaries to head office.

Godfrey, 35, is a chartered accountant who joined the construction and property group in 1983. The appointment is immediate, and represents promotion for Godfrey, who will continue reporting to David Green,

group finance director.

■ John Woollett, formerly md of Lex Nissan, has been appointed sales director of HYUNDAI CARS (UK), the joint venture between Lex Service and the IM Group.

■ Bob Warbey, formerly director of operations, has been appointed director of business development for MGM CINEMAS (UK).

■ John Green, md of the ANGLIAN WATER subsidiary Engineering and Business

Systems, has been appointed to the main board.

■ Graeme Alexander, formerly joint md, has been appointed chief executive of DEVRO INTERNATIONAL, following the retirement of Frank de Angeli who led the mbo from Johnson & Johnson.

■ Nik Hristic, formerly logistics development controller at Coca Cola & Schweppes Beverages, has been appointed md of DSL, part of the TIBBETT & BRITTEN GROUP.



Alan Gormly (above), chief executive of Trafalgar House, is to take over from Sir John Cuckney as chairman of Royal Insurance. Sir John, who will retire in August 1994 after nine years as chairman, first teamed up with Gormly in the early 1980s when the two were chairman and chief executive respectively of John Brown, the construction company. Gormly, 55, a chartered accountant, is described by Royal insiders as a "nuts and bolts industrialist with an in-depth knowledge of international trading operations". His appointment reflects intentions to weld insurance expertise with broader industrial and managerial skills. Gormly will give up his post as chief executive of TH but will remain on the board as a non-executive director.

## Laird takes a seat on the bus

Gavin Laird, the canny general secretary of the AEEU engineering and electrical union, is extending his interests to buses.

Laird has been appointed a non-executive director of the company being formed by bus workers to acquire a part of the biggest of the seven English metropolitan passenger transport companies. The splitting and sale of GM Buses into two businesses, each of which is to be sold, is one of the biggest bus privatisations attempted so far.

Laird, who is leading the bid for GM Buses North, says that trade unionists and employees would prefer the service to remain in public ownership.



But, if privatisation were forced upon them, then employees would rather be the new owners.

Each of the employees involved in making the bid is

committing a minimum of £1,000. Laird says that if the bid is successful the company would be driven by one primary objective: to provide the travelling public of Greater Manchester "with an efficient cost-effective service second to none".

Alan Westwell, GM Buses chief executive and managing director who has worked together with union representatives as a team in formulating the bid says he is "delighted to have Gavin on board. His credibility, support and guidance gives us enormous strength". If the bid is successful, Westwell would become md of GM Buses North and Laird chairman.

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## Theatre

## Fun with The Bard

Peter Whelan is one of the best contemporary British playwrights. If his work has a fault, it is that he is a bit long on research and short on fun. See, for example, *The Bright and Bold* about politics in the Pottery, and *School of Night* about the politics of Christopher Marlowe. In short, he is a trifle earnest.

This has now been rectified in a glorious new entertainment called *Shakespeare Country*. The erudition remains, but there is champagne to go with it. The piece is a wonderful mixture of pure wit and sheer corn.

*Shakespeare Country* is what it is: Stratford-upon-Avon on Midsummer night. The RSC is actually playing the *Dream*, tickets changing hands for fabulous prices on the black market. The actors playing Oberon and Titania are about to get married in real life. Visitors arrive from Germany, the US and Japan, all of them admirers of the Bard. Everyone goes off to the woods and much the same happens as in Shakespeare's play: confusion all round, except that here the agent is not a fairy potion, but a Japanese "friendly tablet" taken in coffee.

The scholars among them specialise in esoteric subjects like Shakespeare's foot fetishes. The American claims to be a direct Shakespeare descendant through an illegitimate line. He has discovered a play called *Love's Labour's Women* (the famous elusive text if it ever existed), but thrown it away because Shakespeare would never have spelled "woman" like that. The Japanese phones his company in Tokyo in his excitement about the effects of the tablet. A British army sergeant turns up to evict them for their cavorting on what has become the property of the Ministry of Defence. He, too, turns out to be a Shakespeare lover. All ends happily, of course, just like the *Dream*.

Shakespeare text is cleverly woven throughout the play, but there is the voice and sheer fun of Whelan as it's not the policemen getting younger, it's the King Lear getting younger, that makes me feel old. There is a lovely scene when the tablets get mixed up and the elderly German man falls for the young Japanese male. And who would have guessed that you could turn Shakespeare's sonnet "Shall I compare thee to a summer's day?" into a song and sing it all the way through, country and western style? It could be a bit certainly it has very good words.

The whole evening is a delight. The occasion is a second Biennial sponsored by British Telecom under which the same play is performed at the same time in about 50 amateur theatres around the country. I saw it as the admirable Questors in Ealing, where the part of the English academic is played by Whelan's wife Pfrangorn. There are still a few performances to go in the course of this week in places stretching from Wrexham to Carlisle and Brighton. Catch one where you can.

Malcolm Rutherford

## Nicholson in perspective

William Packer reviews the exhibition at the Tate

Ben Nicholson, who died early in 1982 at the age of 87, was by then the Grand Old Man of British modernism, the painter Tweedle-dum to Henry Moore's sculptor Tweedle-dee, and had long enjoyed an international reputation. He was loaded with honours, Order of Merit (1968), Rembrandt Prize (1974), Ulisse Prize (Venice Biennale 1964), and could have had more had he accepted all that were offered him, for he was, notoriously, as tricky a man in his professional as in his personal life.

The centenary of his birth falls next April and it has been suggested that this retrospective at the Tate is something of an exercise in rehabilitation. Well, one can never answer for the young, but for anyone a little older, it can hardly be so. For my now-fiftieth generation, he was always there on the fringes, still in the centre of the cultural stage he had commanded since at least the 1930s.

He surely was the acceptable arbiter of English modernism, holding the ring between figuration and abstraction, between romanticism and constructivism, between a seductive native sensibility, founded in the experience of landscape and still-life, and the harder currency of the international avant garde. For most of the cultivated, educated yet unspecialised British gallery public, he still is.

Ben Nicholson is indeed a significant figure in the history of British painting in the 20th century, but significance takes many forms and not

always those that the apologist would wish. Coming as it does with so conventional a timeliness, and being so well chosen and displayed, what this retrospective offers is not rehabilitation but rather a proper reassessment.

He was born to the purple of British art, son of the painter, William Nicholson and his wife Mabel, an artist herself and sister to another, Nicholson's friend and sometime colleague, James Pryde. His father was his first serious influence, and was always to remain an informing if unacknowledged presence in the work. From him came the strength and clarity of design, the sharpness of silhouette and contour, above all the ease and elegance of brush and paint across the surface of the canvas. Nicholson père was ever the dandy and the aesthete in his work, as in himself, and it would always be so with the son.

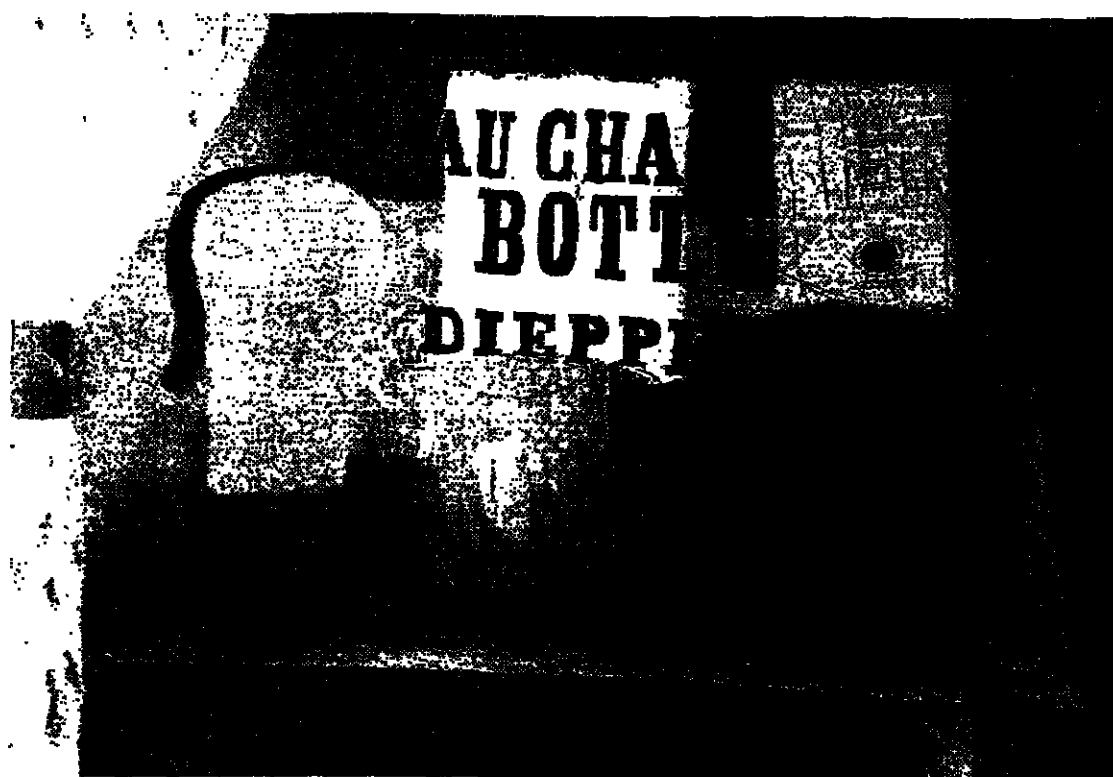
But it is not a simple case of the son looking to the father to make a start, and then moving on in his own way. Having decided upon a career as a painter, nothing but conspicuous success would do. And if Ben would never willingly accept second place among his peers, how much more difficult it was for him openly to allow the precedence that was his father's due. The extent of the creative debt he owed his father has yet to be examined, but it is of the first importance to any understanding of the work.

If paternal influence is so crucial, what of that of succeeding professional associations. To walk round this show is to find oneself ticking

off the particular references, one by one. Here are Winifred Nicholson, Ben's first wife, his old friend, Paul Nash, Christopher Wood, who died so young, and the old Cornish primitive, Alfred Wallis. And here are his second wife, Barbara Hepworth, and her old rival, Henry Moore, and all the Parisian artists to whom his father's contacts gave him access - Braque, Picasso, Mondrian, Gabo.

The questions ask themselves: Whose, quite, were the ideas, whose the originality? Was Ben just another clever, well-placed young man who wanted to be an artist, and made himself one not by talent and inner necessity, but by sheer force of will? Was it simply his luck to be not only who he was, but where, surrounded by artists, and when? For it was modernism that gave him his chance, with its technical simplicities, and its essential rarified self-consciousness. Anything more difficult would have found him out, as it never found out his father.

What, in short, we have in Ben Nicholson is an artist who inherited not his father's intuitive talent and instinctive visual originality, but rather an infinite sophistication and intellectual resource. What were passed on to him were critical antennae of the utmost sensitivity, that could tell him just what was significant, original, useful in the work of his friends, to take and make his own. He never did anything truly original in his life, his originality, such as it is, lying only in the discrimination of his interest, his judgment, his taste.



'An Chat Botté', 1932, oil and pencil on canvas by Ben Nicholson

Who would then say he was a cynic? These things may work at the deepest level, and his ambition, at least, was sincere enough. Do we set too much store, perhaps, on originality for its own sake? The show is studded with paintings of a delicacy and visual wit that are entirely convincing and captivating as they are. That they tend to be the smaller works, and the less self-conscious, as though the artist for once has forgotten himself in his interest in the work and its relation to the visible world, only makes the point.

The window-sill still-lives of the 1940s, with the hills and harbours of west Cornwall beyond, are especially fine in just this way. And when, later, they are amplified onto a more public scale, their imagery abstracted, so the emptier and more evidently formulaic they become. The irony is that it was by these larger works of the 1950s that the international reputation was finally confirmed.

The carved reliefs in the last room are still large enough, but much more simple and physical in their

imagery and the working of the surface. And they seem to bring him back to himself, by now a little old-fashioned in the context of the time, and perhaps at last indifferent to the exigencies of the career, and the better for it. It is as strong, and original, a set of work as any.

Ben Nicholson: The Tate Gallery, Millbank SW1, until January 9; sponsored by The British Land Company



Antoine Normand, Jutta Winkler and Valentin Jar

Opera/David Murray

## 'Zampa' woos Wexford

Under its intrepid artistic director Elaine Padmore, the Wexford Festival Opera has had yet another unlikely success, in the form of *Zampa*, or *La Fiancée de marbre*. Again, Miss Padmore has assembled just the right team for a work that few companies would risk now; and getting it so well together, for the third consecutive "first night" of the Festival, was a triumph in itself.

Normally, the composer Ferdinand Hérold (1791-1833) is mentioned on this page only when Clement Crisp reviews his ballet *La Fille mal gardée*. But he wrote more than 20 operas too, mostly for the Paris Opéra-Comique; not long after the famous *Fille* came *Zampa*, and then - just before his early death, from tuberculosis - *Le Pré aux clercs*. Those two kept his name alive for many decades; but no more.

*Zampa* is a sort of "operetta semi-seria". Wrestling the lovely Camille brutally from her poor fiancé Alphonse, the fierce corsair Zampa forces her

to marry himself, but he is haunted by a statue of Alice, a girl he ruined years before, and before he can delude Camille - there is a lot of intervening byplay - the statue drags him down to hell. Alphonse is pleased (but less pleased to learn that Zampa was his elder brother). Meanwhile, a similar triangle between Camille's maid, her new swain and Zampa's first mate is played out as comedy.

Whereas the darker strand in this mock-Sidilian story was once thought too sombre for the Opéra-Comique, the modern worry would be that the farcical sub-plot is too routine to buoy up the melodrama. The producer Tim Hopkins' solution is to give *Zampa* a delicious, with her bell-bright soprano. Her compatriots John Daniecki (Zampa) and Bradley Williams (Alphonse) wield nicely contrasted high tenors Jutta Winkler is a fine, lugubrious mezzo, and her excellent would-be and ex-husbands are Antoine Normand and the chunky Valentin Jar. A very good time is had by all.

The comics do their stuff with such dogged earnestness that it turns into a higher-order joke; the chorus's routine

reactions-and-gestures are drawn out to the point where they become weird and mad. It is all a bit end-of-term, and in a larger house with a less convivial audience it might not work, but at Wexford it is cheerfully infectious. Hugely assisted by the young conductor Yves Abel, fresh from promoting the cause of French opera in New York: for verve and style (not over-conscious), he cannot be faulted.

The Festival Chorus and the National Symphony play up with a will, and the dusty period charm of Hérold's score - which really offers nothing much more, expert though it is - brightens into momentary life. As Camille the American Mary Mills is delicious, with her bell-bright soprano. Her compatriots John Daniecki (Zampa) and Bradley Williams (Alphonse) wield nicely contrasted high tenors Jutta Winkler is a fine, lugubrious mezzo, and her excellent would-be and ex-husbands are Antoine Normand and the chunky Valentin Jar. A very good time is had by all.

## Women, Space, Light and Dance

A lone woman invading space. This idea, this image of a female pioneer, goes deep in American modern dance, and it is as old as the century - it goes back to Isadora. American women at the turn of the century were asking questions, posing challenges, thrusting into the unknown. American modern dance has had its great male dancers too, but they have demonstrated a less investigative, more secure, attitude to space. For some American women, even now, unoccupied space is an opportunity for adventure and drama.

To make stage space dramatic, however, you also need light. Even before Isadora, the American dancer Lois Fuller was a pioneer of lighting. And many great dances by George Balanchine and by Martha Graham were lit, famously, by a woman - Jean Rosenthal, who, by all accounts, made as much out of unadorned space as Wieland Wagner. Today, the leading lighting designer in dance is Jennifer Tipton; and last weekend at Riverside Studios Sara Rudner and Dana Reitz danced, in silence, barefoot, to her lighting.

"The divine Sara" as she has been nicknamed (with her beautiful mane and striking cheekbones, there is a Bernhardt resemblance), Rudner is mainly famed as the greatest dancer to belong to Twyla Tharp's company, inspiring roles in great Tharp dances like *The Fugue* (1970) to *The Catherine Wheel* (1980), and she still returns to dance with Tharp at regular intervals.

But Rudner has long been also a soloist in her own choreography. Moving alone in light, she is always sensual and richly textured. She uses her own weight powerfully - much about her dancing reminds me of Lynn Seymour - and with luscious complexity: shimmying, arching, rippling, falling. As she addresses the light, or discovers it, or turns her back on it, she is, by turns, innocent, merry, heroic, bleak. The many moods her dancing has are as marvellous to behold today as when I first saw her in 1980, and what is most beautiful of all is her utter absorption in them.

Dana Reitz, whose career has been chiefly as a soloist, has a quieter and more ironic style. She may be proceeding slowly in waves and curves in one direction, when suddenly the sharp flip of a wrist behind her back will register as a gesture of contradiction. She is an elegant dancer,

but part of her elegance lies in being somewhat detached. Her whole physical tone is cooler than Rudner's, and the way she carries her head adds a quality of intellectual commentary. This weekend, these two soloists shared the stage, and the light, with perfect accord.

As for Tipton's lighting, it was astounding. A dancer might be lit from a high white light behind, or silhouetted against a suddenly azure backdrop, or apparently suspended in warm light with no floor visible. One dancer might be a two-dimensional shape against the glowing backdrop, while the other dancer might be a three-dimensional figure against the encompassing void. At one point Reitz walked on, wearing a straw hat, when she took it off and held it cent-

Alastair Macaulay reviews Sara Rudner and others in the Dance Umbrella season

tre-stage, a burning spotlight so illumined it that it looked like a burning orb, a miniature sun.

The dance lasted over an hour, and towards the end some of Tipton's effects became too virtuosic. Circles within circles of light, colours against colours, darkness against brightness, until Reitz and even Rudner began to seem incidental. The performance, however, was always enthralling - and reminded me that when the history of American dance in our century is written, the names of Tipton and Rudner should loom large in it.

The British attitude to space is, of course, a different matter. We do not invade it, we occupy it discreetly, and what authority we exert in it is terribly correct. Still, certain dancers and choreographers make movement in space a matter of personal drama. Look at Siobhan Davies, whose company (three women, three men) was dancing last weekend at the Queen Elizabeth Hall.

Davies's style is lyrical, lambent, sensitive, discreet - frightfully British. Again and again you see dancers stretching out into space - but they do not step out into it, the American way. They hold their own, they view the terrain, they express themselves. Nor does space here have any

character of the great unknown. Space with Davies, as with any British choreographer, is something already charted. The drama of a dancer entering space is simply the Virginia Woolf drama: staking out a room of one's own. When one dancer parts another, there is no sense of conflict, or struggle for power; but supportiveness galore.

Of the pieces Davies showed this weekend, *Wanting to Tell Stories* - which I reviewed from Brighton this May - was having its London premiere, and was the second half of both double-bills, the first half was either *White Bird Featherless* or *Make-Make*, both of which have been seen here before. She is fortunate in having the brilliant lighting of Peter Mumford, who achieves marvels comparable to Tipton's - and, in *White Bird Featherless*, likewise produces too many bravura effects.

Each of these Davies works has its own interesting character, but each is so devoid of progress or climax that it is impossible to remain absorbed. Davies is, no doubt, one of the most important British artists today, she has made works I would love to see again (the most recent being the 1989 *Sounding* and the 1990 *Different Trains*), and her choreography is currently reaching new peaks of stylistic sophistication. Yet how I wish the impulse at their heart were simpler.

Everyone in a Davies work is endlessly sensitive, but to what end? Behind all the lyricism, you begin to sense a kind of depressing passivity and an artful love of contrivance. What a lot of subtle craft has gone into creating this collage of people in their different ways - with all their refinement of feelings and manners getting nowhere lyrically.

Curiously, a third Dance Umbrella event last weekend was also an affair of light and the female choreographer. Miranda Tubbill was her own solo dancer, and the lighting was by David Ward. The lighting - bulbs hanging low above the floor, black-and-white patterns projected over the whole stage, and more - was an interesting enough stage environment. But Tubbill, never much of a dancer, has become a slow, laborious bore. Mainly she rolled or lay slumped, and sometimes she set the bulbs swinging through the air. The image her work conveys is the most somnolent brand of solipsism.

## INTERNATIONAL ARTS GUIDE

## AMSTERDAM

Concertgebouw Tonight: New London Choir and Orchestra in all-Tchaikovsky programme. Tonight (Kleine Zaal): Borodin Quartet. Tomorrow and Fri (Kleine Zaal): Colorado Quartet. Thurs, Fri, Sat: Riccardo Chailly conducts Royal Concertgebouw Orchestra in works by Debussy, Strauss and Frank Martin, with piano soloist Ronald Brautigam. Sat afternoon: Jansug Khachidze conducts Radio Symphony Orchestra in Berlioz and Florent. Sun afternoon: Britten Quartet plays Beethoven and Stravinsky. Sun evening (Kleine Zaal): Bob van Asperen and friends play baroque sonatas. Next Mon, Tues: Ken-Ichiro Kobayashi conducts Netherlands Philharmonic Orchestra in Arensky, Tchaikovsky and Rimsky-Korsakov (24-hour information service 020-675 4411 ticket reservations 020-671 8345).

Musiektheater Tomorrow, Fri, Sat (also Oct 28, 29, 30, 31): Dutch National Ballet in William Forsythe's *Artfact*. Thurs, Sun afternoon, next Wed: Hartmut Haenchen conducts

Peter de Nuy's Netherlands Opera production of Orfeo ed Euridice (020-625 5455)

## ANTWERP

Antwerp 93 This week's programme features National Theatre of Craiova, Romania, in Shakespeare's *Titus Andronicus*, directed by Silviu Purcarea, daily from tonight till Sat at deSingel. Arditi Quartet plays music by Maurice Kagel tomorrow at deSingel, followed on Fri by a Kagel evening directed by the composer. On Sat, Elgar Howarth conducts Royal Flanders Philharmonic Orchestra in Holst, Stravinsky and Birtwistle (Antwerp 93 information from Grote Markt 93, B-2000 Antwerp, tel 03-226 9300; tickets from Tele Ticket Service tel 070-233233 or in person at Fnac, Groenplaats, Antwerp. The box office number at deSingel is 03-248 3800).

de Vlaamse Opera Tomorrow and Sat: *Otello*, conducted by Stefan Soltesz and staged by Gilbert Deflo, with Cornelia Murgu, Knut Skram and Elena Filipova (03-233 6885).

## BRUSSELS

Morgane A new production of *Carman*, staged by Guy Joosten and conducted by Antonio Pappano, opens tomorrow with a cast led by Graciela Araya and Richard Margison (8th Nov 18). Sun: Ann Murray song recital (02-219 6341).

Palais des Beaux Arts Tomorrow: Pinchas Zukerman violin recital. Thurs: Liege Philharmonic Orchestra, piano soloist Frank Braley. Fri: Pierre

Boulez conducts Orchestra de Paris in Stravinsky, Berg, Debussy and Messiaen, violin soloist Victoria Mullova. Mon: St Petersburg State Symphony Orchestra plays Tchaikovsky (02-507 8200).

## CHICAGO

CHICAGO SYMPHONY There are two guest orchestras this week at Orchestra Hall: the Berlin Philharmonic, conducted by Claudio Abbado, plays Mahler's Ninth Symphony on Fri, followed by St Petersburg Philharmonic on Sun in a Rakhmaninov and Rimsky-Korsakov programme conducted by Yuri Temirkanov. Oct 31: Kurt Masur and Leipzig Gewandhaus Orchestra. Oct 29, 30, Nov 2: Solti conducts Haydn (912-435 6666).

CHICAGO LYRIC OPERA This month's repertory at Civic Opera House is Massenet's *Don Quichotte*, Carlisle Floyd's *Susannah* and Tosca. The final performance of the Massenet, with Samuel Ramey and Susanne Mentzer, is on Fri, *Susannah*, with Ramey and Renée Fleming, can be seen on Sun, with further performances till Nov 5.

Tosca opens on Sat with a cast led by Maria Ewing, Kristian Johansson and James Morris (912-332 2244).

## GENEVA

Grand Théâtre Tonight: final performance of choreographies by Ek, Kylian and Neumeier (022-311

2311) Victoria Hall Tomorrow: Amin Jordan conducts Orchestra de la Suisse Romande in works by Bartok and Shostakovich, with piano soloist Martha Argerich. Fri: Claus Peter Flor conducts Zurich Tonhalle Orchestra in Mozart and Bruckner, with piano soloist Brigitte Engerer (022-311 2511).

## UTRECHT

Vredetion song recital. Sun afternoon: John Eliot Gardiner conducts English Baroque Soloists and Monteverdi Choir in Bach cantatas, with Anthony Rolfe Johnson and Nancy Argenta (030-314544).

## VIENNA

Staatsoper Tonight, Thurs: Riccardo Muti conducts *Le Nozze di Figaro*, with a cast led by Cecilia Gasdia, William Shimell and Bryn Terfel. Tomorrow: Maria Stuarda. Fri: Zubin Mehta conducts first night of new production of *Il trovatore*, with Cheryl Studer, Agnes Baltsa and Sergei Leiferkus (repeated Oct 24, 26, 28, 30, Nov 3, 7 with cast changes). Sat: Tosca. Next Mon: Lucia di Lammermoor (61444 2955). Musikverein Tonight: Arnold Schoenberg Choir 20th anniversary concert, music by Bach. Tonight (Brahms Saal): André Previn and friends play Mozart and Poulenc. Tomorrow: Martin Haselböck conducts Vienna Academy original instrument ensemble in Weber and Beethoven. Fri, Sat, Sun, Mon: Rafael Frühbeck de Burgos

conducts Vienna Symphony Orchestra in Elmen, Haydn and Richard Strauss. Sat afternoon: Sunday morning: André Previn conducts Vienna Philharmonic in Haydn and Off. Sunday afternoon: Boris Beresovsky is piano soloist with Tonkünstler Orchestra. November 2: Jessye Norman (505 8190). Konzerthaus Tonight: Nicolai Petrov conducts Novosibirsk Philharmonic Orchestra in works by Rimsky-Korsakov, Balakirev and Musorgsky. Next Tues: opening of 1993 Wien Modern contemporary music festival (712 1211).

## WASHINGTON

MUSIC The Berlin Philharmonic, Leipzig Gewandhaus and St Petersburg Philharmonic Orchestras play at the Kennedy Center over the next two weeks. Abbado conducts the Berlin orchestra tomorrow in a Mahler programme. Kurt Masur brings his Leipzig orchestra next Mon, followed by the St Petersburg orchestra with Mariss Jansons on Nov 3 (202-467 4600).

Hugh Wolff conducts St Paul Chamber Orchestra on Thursday at Center for the Arts, George Mason University. Bolshoi Ballet presents classical ballet excerpts on October 27 and 28 (703-993 8888).

a cappella quartet The Bobs on Fri and Sat (1624 Trap Road, Vienna, Virginia, 703-218 8500).

Grover Washington will present his contemporary style of jazz at the Meyerhoff on Oct 24, followed by jazz vocalist Jean Carne on Oct 30 (410-783 8024).

## ZURICH

Openmhus The main event this week is the first night on Sat of Jonathan Miller's new production of *Falstaff*, conducted by Nello Santi, with a cast led by Juan Pons and Lucia Popp (repeated Oct 27, 30, Nov 2, 5, 7, 9, 12). Repertory also includes Henze's *Der Prinz von Homburg* with Thomas Hampson, *Il barbiere di Siviglia* and Don Carlo. Next Monday: Alban Berg Quartet, with pianist Rudolf Buchbinder, in works by Dvorak and Janacek (01-262 0509). Schauspielhaus Arcadia, Tom Stoppard's new multi-layered comedy: German-language premiere directed by Peter Wood and designed by Carl Toms (01-221 2283).

## ARTS GUIDE

Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

European Cable and Satellite Business TV (All times are Central European Time)

MONDAY TO THURSDAY Super Channel: European Business Today 0730; 2230

Monday Super Channel: West of Moscow 1230.

Super Channel: Financial Times Reports 0630

Wednesday Super Channel: Financial Times Reports 2130

Thursday Sky News: Financial Times Reports 2030; 0130

Friday Super Channel: European Business Today 0730; 2230

Sky News: Financial Times Reports 0530

Saturday Super Channel: Financial Times Reports 0630

Sky News: West of Moscow 1130; 2230

Sunday Super Channel: West of Moscow 1830

Super Channel: Financial Times Reports 1900

Sky News: West of Moscow 0230; 0530

Sky News: Financial Times Reports 1330; 2030



Nato is in a fix about eastern Europe. Its efforts to build links with its former foes, in a region which for 40 years was tacitly recognised as the Soviet Union's domain, have succeeded only too well.

Public enthusiasm for Nato is more apparent in countries such as the Czech Republic or Poland than in the allied nations themselves. Half a dozen countries are queuing at Nato's door. Several former Soviet republics could also become candidates. It is a situation that Nato does not know how to resolve.

Allies know that their summit meeting planned for January 10 cannot duck the issue. They will want to send a clear signal that the door to membership is open, but at the same time try to win eastern European countries over to the idea that there may be an acceptable alternative, short of membership.

What Mr Manfred Wörner, Nato secretary general, has already indicated they are unlikely to do is set a timetable or identify candidates.

Defence ministers of the 16 allies will discuss relations with eastern Europe in an informal meeting starting tomorrow in the German seaside resort of Travemünde. But neither the US nor any of its main allies has yet formed a policy on enlargement.

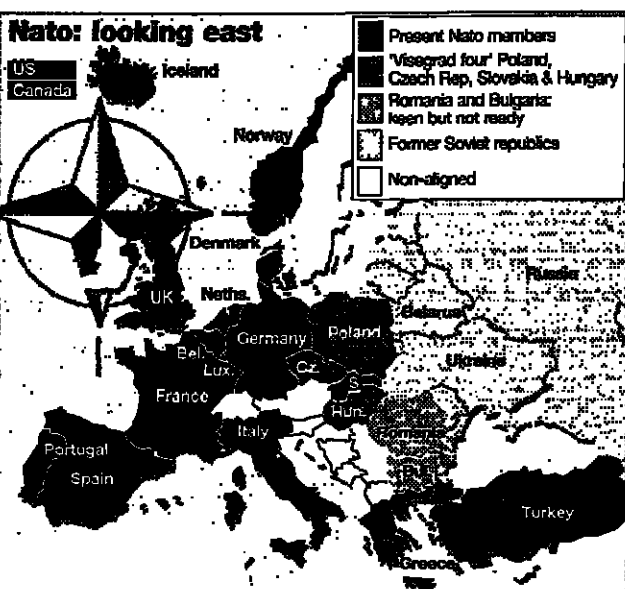
"There's going to be an enlargement at some point. Nobody believes we're going to stay at 16 members for ever," said a senior Nato diplomat. But in the corridors of allied headquarters in Brussels there is little enthusiasm for new admissions. One European official warned: "We are creating expectations which we do not have the means to fulfil."

Former Warsaw pact members have been encouraged by Nato's efforts to promote co-operation since the pact collapsed in 1991. Nato saw an active role in eastern Europe as the way to justify its own continued existence and keep political support in the US.

But Nato is in no hurry to extend its security guarantees to new borders. Membership of Nato, under Article 5 of the Washington Treaty, commits members to assist each other against attack. In practical terms this means a US guarantee to its European allies, backed by US conventional and nuclear forces. "It's honestly up to the Americans," said a European diplomat at Nato. But the US Congress would probably be most reluctant to extend the protective umbrella.

## Too popular for own good

Nato needs to form a policy on enlargement, says David White



The second obstacle, and Nato's main pretext for hesitation, is Russia. If, by integrating Moscow's one-time allies, Nato makes Russia feel isolated and insecure, it could damage rather than improve global stability.

This dilemma has worsened since this month's bloody confrontation between President Boris Yeltsin and rival factions in Moscow. Eastern Europe is looking more anxiously towards the west for security. But Nato is even more concerned not to create problems for Mr Yeltsin.

Oddly, it was Mr Yeltsin who put enlargement on the Nato summit agenda. In Warsaw in August, under persuasion from Poland's President Lech Wals, he stated that Russia would not see Nato enlargement as being against its interests. This shook Nato, which then had to start thinking seriously about it.

The next month, Mr Yeltsin corrected his position, proposing that Nato and Russia should jointly guarantee eastern Europe's security. He also argued that Nato had implicitly agreed not to expand eastwards at the time the status of united Germany was settled in 1990. Both suggestions are firmly rejected by Nato.

However, there is no consensus in Nato about how far it should envisage expanding. There are three groups of actual or potential candidates. Top of the list, but not necessarily all together, come the "Visegrad four" - Poland, the Czech Republic, Hungary and Slovakia. Romania and Bulgaria are also keen, but are considered less ready. Former Soviet republics may look to Nato, although this is currently too sensitive an issue with Russia.

There are also different schools of thought about Russia itself. In December 1991 Mr Yeltsin declared a "long-term political aim" of membership. But Russia has not pressed its candidacy, and some allies see it as "too large, too Asian and too backward" ever to join.

Among the main European allies, Germany has been the most supportive towards central European applicants, particularly its outspoken defence minister, Mr Volker Rühe. But he has recently taken a more cautious line. The UK and France are both wary. The US is also uncomfortable with the emphasis given to the membership question.

Nato will try to match any gesture it makes towards enlargement with a parallel upgrading of defence relations with Russia and Ukraine. The

summit can also be expected to try to inject more substance into the North Atlantic Co-operation Council, set up as a talking shop for Nato and the former Warsaw pact countries including Soviet successor states in Europe and Asia.

Special arrangements are under discussion in Nato for the countries that feel entitled to membership and that have done most to reform their military along Nato lines. The Washington Treaty, while allowing for other European countries to be invited to join, makes no provision for associate membership. But there could be affiliation agreements. This would, in effect, extend to the countries concerned the consultation procedures foreseen in Article 4 of the treaty in the event of a security threat, but not the commitment to mutual armed assistance contained in Article 5.

"We're in no position not to accept affiliation," said a Polish official. But he warned it would be seen in Poland as just a first step towards entry. "It might work in January, but already by March or May it would be insufficient."

Some members are pushing for Nato admission to be linked to countries' accession to the European Community. As EC members, they would have the option of belonging to the Western European Union, with its own mutual security guarantees. This would avoid having to set specific criteria for Nato membership. But officials in candidate countries believe it may mean waiting too long.

Mr John Chipman, director of the London-based International Institute for Strategic Studies, said these countries had given too much importance to Nato, failing to see that their long-term security lay in economic integration in the EC. "It is absolutely certain that Nato will be useful to them in the future," he asked.

European allies are also worried that Nato, in its concern about eastern Europe, is being distracted from its own "family problems" - crucially, the balance in the alliance between the US and western Europe. This has been highlighted by President Bill Clinton's latest remarks about the UK and French record over Bosnia.

The European allies want the summit to produce a reaffirmation of US commitment. "Nato's problem is this relationship: what do they want to do together?" said one diplomat. "If Nato has a problem of rational d'être, it's not in enlargement that it will find another rational d'être."

## Joe Rogaly Bottom line on Buthelezi



It will soon be time to call Chief Mangosuthu Buthelezi's bluff. I refer to the Zulu prince who heads both the KwaZulu government and the Inkatha Freedom party. The great black hope of conservative whites in Natal and elsewhere has battled hard for his chance to rule his bit of a South Africa that seems likely to be governed by the African National Congress, perhaps in alliance with President F W de Klerk's National Party. He is the leading figure in the "Freedom Alliance", which brings together leaders of three black "homelands" and two potential rulers of a white redoubt. All want their own dunghills over which to crow, but their unifying objective, the preservation of minority rights, is not unworthy.

Chief Buthelezi's methods, are, however, becoming dangerous. His recalcitrance is one of the principal obstacles to agreement on South Africa's future. An outcome not impossible to imagine might be an Angolan-style civil war. Underlying Britain's caution over matters South African is the fear of such a catastrophe. Southern Africa would disintegrate. There are perhaps 10 million British passport-holders in the republic, and untold billions of capital invested in its future. The maintenance of stability is a prerequisite for all else.

Not everything Mr Buthelezi says is wrong. His call for a federal-style solution has merit. His political behaviour, which is characterised by walk-outs and threats, is, however, becoming unsustainable. Both President de Klerk and his fellow Nobel laureate, Mr Nelson Mandela, are trying direct negotiation, in parallel with the multi-party process.

I have some personal experience of the chief's ability to expand on his thoughts. I visited him in Ulundi, the capital of the Zulu "homeland", a few years ago. The two of us sat in his cabinet room alone, save for the photographs of himself meeting Thatcher, Reagan and the like. (Lady Thatcher was always a particular admirer of

his.) He spent some 45 minutes, which felt like twice as long, reading from a statement prepared to mark my visit. This was subsequently given to the news agencies.

That task completed, we took lunch with the KwaZulu cabinet, which was as service as that of the Lady then in office back in London. I was sent home with a bound typescript, 147 single-spaced pages of it. It was Mr Buthelezi's recent policy speech to his assembly. When I have told this story to others who have met him, the response has been "so what else is new?"

Yet verbosity does not mean that his case is all bad. Putting my own gloss on the element of it that should be heard out, it is this: the ANC, which maintains its alliance with the South African Communist party, cannot be trusted to rule South Africa in a democratic fashion. If it wins the first non-racial election, it may share power, as promised, with the previously white supremacist National party, but the two of them will together impose autocratic rule, suppressing most freedoms. Eventually the traditional African dictatorship will prevail, with the Nats who ride on its back.

To my mind one touchstone might be: will there be a need for a Helen Suzman in the new South Africa? I have some personal experience of the chief's ability to expand on his thoughts. I visited him in Ulundi, the capital of the Zulu "homeland", a few years ago. The two of us sat in his cabinet room alone, save for the photographs of himself meeting Thatcher, Reagan and the like. (Lady Thatcher was always a particular admirer of

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## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL  
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Flaws in rail privatisation proposal

From Prof Francis R Terry.

Sir, Your editorial "Case for rail privatisation" (October 15), is a brave attempt to find some value in a policy that is fundamentally flawed. If the infrastructure of track and signalling is separated out, and probably retained indefinitely in public ownership, the private sector train operators will find about two-thirds of their costs, and a major area of investment, completely outside their control. The proportion would be even higher if ancillary functions like station services and car parking are taken into account. It is this constraint, together with the fragmentation of the network

into much smaller franchised units, which is both deterring the private sector and driving the most successful railway managers out of the industry.

Railway track is not like gas pipes or electricity cables: modern technology means that it is part of an integral system with the vehicles. Its characteristics effectively govern speed, passenger comfort, service frequency and, not least, safety. Yet these are the factors which the management of a private railway would presumably want to promote. Railways have for many years been competing hard with other modes of transport, usually on a playing field which is far from

level, and there is no sign that the new regime on Gatwick services will make the slightest difference to the volumes of passengers moving there by road. As for competition on rail, it has long been possible to choose a cheaper service than Gatwick Express, by boarding a Brighton-bound train and taking five minutes longer for the same trip.

If we start by accepting that the losses suffered by railways almost everywhere will never make BR a saleable proposition in the style of other utilities, an alternative solution is required. BR could be converted to a mutual organisation, rather like a building

society. This would subject it to the same business disciplines as a private company and would open the door to raising finance outside the public sector. Services producing surpluses would be reinvested, under a not-for-profit constitution - and we could have all the excitement of a public issue subscription, with attractive concessions for season-ticket holders and others who invest above a certain level.

Francis Terry,  
head of research,  
Nottingham Business School,  
Nottingham Trent University,  
Burton Street,  
Nottingham NG1 4BU

### Absurdity of red tape in education

From Dr William Wallace.

Sir, Thank you for your editorial, "Cutting red tape" (October 11). Ministers, as you say, find this a splendid subject for rhetoric; but have shown little skill in distinguishing necessary regulation from unnecessary form-filling.

The situation in education, from universities to primary schools, is the most absurd. In the name of "marketisation", more and more information is being required from teachers: more forms to fill, more outside inquiries, more lengthy sets of regulations (altered by each new minister every 18 months or so) to be read and implemented. The national curriculum has been subjected to endless, often seemingly arbitrary, changes, each requiring new handbooks and standards. The amount of information demanded from universities - on the details of research output, teaching methods, utilisation of resources - must now be far higher than the regulatory system has the capacity to absorb: an outcome worthy of a socialist system in decline. Right-wing prejudice against the teaching profession - there can be no other explanation - has carried free-marketeers to the opposite extreme.

I recall many years ago that Marks and Spencer swept away many of its internal stock checks and paper-filling, made it clear that it trusted its staff, and gained an impressive net saving. A rational government would come to the same conclusion about the proliferation of paper in the education field. There is sadly little evidence of rational educational policy-making within the present government, however.

William Wallace,  
St Antony's College,  
Oxford OX2 6JF

### Charity tax relief should be abolished

From Mr Walter Morison.

Sir, A debate on the future of charities is timely, but I comment here on only one aspect. Tax.

Tax exemption should be withdrawn from all charities. It is not so much the distortion that it causes in the fiscal balance (along with exemption for pension funds and mortgage interest), but charity, properly speaking, is a personal and voluntary matter. Why then are we, as taxpayers, compelled to contribute to countless causes of which we know nothing and some of which we may disapprove?

It is no argument to say that we cannot control how our taxes are spent, other than at the ballot box. There are

expenses of the state which must be paid for, whether some of us like it or not. This is not so with charities, support of which by the state is not essential and which detracts from the voluntary concept.

The charity scene is getting out of control. Countless small organisations are becoming registered as charities with no object other than getting tax relief, the amount of which will be trivial, and with the charities having little understanding of the onerous legal and administrative obligations which they incur. The vague definition of what is charitable enables some very strange causes to qualify. If tax relief were abolished, there would be

no reason for the Charity Commissioners to be concerned.

I am a trustee of a substantial endowed charity which makes good use of its funds, but if they were withdrawn over a period we should have to live without them. We might then deregister, if that were possible.

Charitable status has caused us enormous expense in order to comply with legal requirements for transactions the purpose of which was, by common consent, entirely proper. I have yet to find any benefit other than tax relief. These are not necessarily the views of my co-trustees.

Walter Morison,  
14 Fairfield Road,  
Bosham, West Sussex PO18 8JF

### Opt-out no incentive for jobs

From Mr Neil Derrick.

Sir, David Hunt, the employment secretary, has opted out of the real world if he believes that saving the jobs of newspaper boys and girls ("UK wins opt-out on labour law", October 13) will lead to an increase in multinational investment in the UK. Presumably we shall see yet more adverts encouraging foreign companies to take advantage of Britain's low-paid, long-suffering, unprotected yet "wildly enthusiastic" youth.

The fact is that David Hunt's claim that the British opt-out of European laws protecting 16- and 17-year-olds will lead to multinationals moving to Britain is sheer nonsense. Figures produced by the GMB taken from the 1991 census show that 16- and 17-year-olds make up just 2.29 per cent of the British workforce. The idea that this deregulation will persuade employers to uproot and move to the UK for such marginal reasons is ridiculous. The government can hardly

claim that the lack of statutory protection of wages or conditions will lead to more jobs being created for young people. Self-evidently it has not. Britain has 1m young people out of work. Unemployment among 16- to 25-year-olds is twice as high as in the rest of the population; they earn less than the rest, about 63 per cent of average earnings.

Just what young people are supposed to make of this government's antics is beyond me. These days ministers only ever refer to young people as future recipients of custodial sentences, drunks on the welfare state, or queue jumpers in the housing waiting list.

David Hunt ought to be addressing Britain's skills gap and the training needs of young people today. Perhaps then multinationals might consider locating in the UK. Neil Derrick,  
national young members officer,  
GMB Union,  
32-34 Worpole Road,  
London SW19 4DD

### VAT would be blow for books

From Mr Peter Kilborn.

Sir, Your readers who saw that the book trade expects a 5 per cent reduction in book sales as a result of VAT being imposed might well feel that the industry is protesting too much ("Industry tries to fend off the VAT man", October 11). In fact, our estimate of the likely reduction, based on detailed economic analysis, is at least 15 per cent, which makes all the difference between a relatively minor hardship and a catastrophic body blow.

No industry could absorb such a loss of revenue without drastic upheavals: in the book business, we would expect to see many bookshop closures and 10,000 or more jobs lost, not to mention a substantial reduction in the number and variety of books published. Peter Kilborn,  
campaign manager,  
Books Add Value Campaign,  
19 Bedford Square,  
London WC1B 3EJ

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## The Atlantic looks wider

PRESIDENT BILL Clinton and his secretary of state, Mr Warren Christopher, are not happy about the way their foreign policy is going. That is understandable. They have discovered, like the leaders of almost every great power in history, that great power status does not automatically give you control of small crises. In Bosnia, Somalia and Haiti they have been defied by people with only a tiny fraction of the resources they have at their disposal, but who are (partly for that very reason) much more single-minded and less scrupulous about the use to which resources are put.

In the absence of really big crises, small ones loom large. None of these is entirely or even mainly of Mr Clinton's making. None in itself constitutes a global problem, though all in their different ways are very unpleasant, and have some serious implications for other countries in their respective regions. It would have been difficult for any US administration to ignore them, and almost any US administration would have tried to tackle them, as Mr Clinton has, with a mix of diplomacy and force, sharing the burden as far as possible with like-minded and interested partners under the aegis of the UN and other international organisations.

Having run into difficulties with all three, Mr Clinton and Mr Christopher have at least had the honesty to admit their mistakes. They would not be politicians, indeed they would hardly be human, if they did not point to the mistakes made by others as well. In Somalia, it is mainly the UN and its unfortunate secretary-general that are taking the rap. In Bosnia, it is the US's European allies, and especially the UK.

They richly deserve it, and would be ill advised to reply in kind. If blame for the Bosnian tragedy must be apportioned, there is plenty to go round, but Europe can hardly avoid the lion's share. It is after all happening in Europe, on the very borders of the EC, and the EC in the early stages made much of its peacemaking role. Within the EC, Britain commandeered the lead, putting in two former foreign secretaries as successive chairmen of the peace

conference. It also sent troops, whose presence it has repeatedly used as an argument to block US initiatives and to brush aside US criticisms. If the troops had actually stopped the fighting or protected the victims, that might be fair enough. Instead they have had to watch while the proclaimed will of the international community, and all the most basic human rights, have been repeatedly violated on a large scale.

That is still happening, and Britain along with other European countries has clearly run out of ideas on what to do about it. American ideas might not have worked any better, but American frustration that they have not been tried is entirely understandable.

The tragedy is by no means over. European powers should be looking urgently for new ways of dealing with it. They should listen with greater humility to American views. And they should be concerned about the wider damage the affair is doing to the transatlantic relationship.

The problems of the former Yugoslavia are ones which "Europe", if it existed, might reasonably be expected to handle on its own. Other issues are genuinely insoluble without American commitment and co-operation - the most obvious being the management of relations with an increasingly volatile Russia, the conclusion of negotiations on a new framework for international trade, and the redefinition of the role of the Atlantic alliance itself, particularly in relation to the new security problems which have arisen in central and eastern Europe.

In their frustration, Mr Clinton and Mr Christopher let slip something that careful observers of the US have realised for some time: that relations with Asia and the Pacific are now more important to it than relations with Europe. Getting the American public to focus on global problems at all is increasingly difficult, and economic concerns now tend to loom larger than military ones. Europe needs to work harder both on solving its own problems and on engaging US interest in those that need it. It can no longer take US interest for granted.

## Cutting coal

IN ARGUING for the privatisation of British Coal ministers are at their most convincing when they say the state is ill-equipped to run the industry. The dead hand of the centre has rarely been more debilitating than now, as British Coal prepares to move within 18 months to the private sector.

The problems stem from the white paper which the government was forced to publish in March in response to the public outcry last year over its proposed pit closure programme. This provided a reprieve for 12 of the 31 condemned pits but did nothing effective to create the market on which their survival depended.

The long-term future of the 12 was always doubtful. Miners at two of them have already voted for closure, and hope has all but evaporated for the remaining 10. Mr Neil Clarke, British Coal chairman, admitted as much last week and again yesterday. Also at risk, although he did not say it, are at least another four of British Coal's 19 "core pits".

So what is keeping them all open? Officially British Coal is still conducting the "market testing" exercise designed to see if it can sell more coal to the electricity generators and other

potential buyers.

The reality is that after six months the exercise has resulted in no extra sales and is unlikely to do so at anything like the scale required to save the 12 pits. The delay in closure announcements owes more to government concern over the political reaction than to market uncertainty.

This is no longer acceptable. After more than a year of doubt, the 20,000 remaining miners and managers deserve to know if they have a future in the industry. Of course they want jobs, but they also want to know if they must now plan an alternative future.

The gloom caused by the uncertainty is spreading even to the pits that are highly unlikely to close and affecting morale (though commendably, it seems, not yet productivity). The industry is producing nearly 1m tonnes a month more than it can sell; putting it on stockpiles merely increases the government's difficulties in finding a buyer to run the mines in the private sector.

Mr Michael Heseltine, trade secretary, is back at his desk this week after his summer illness. He faces many difficult decisions, several of them in energy. His first should be to sanction the closure of the doomed pits.

## The Cyprus test

THE BIENNIAL conference of leaders of the Commonwealth is the diplomatic equivalent of cricket. It baffles foreigners, lasts as long as a five-day test match, and the English team usually gets a drubbing from West Indians and other nations who have adopted the game. It is also losing spectators. The heads and representatives of 50 governments who meet in Cyprus this week have to sharpen their performance and improve their image.

First the conference has to set aside past differences over South Africa. Like the English cricketers who moan about Mr Curtly Ambrose's bouncers, Mr Douglas Hurd, UK foreign secretary, complains the Commonwealth has been "distorted" by the long row between Britain and most other members over apartheid.

This view is too partisan. Commonwealth members legitimately used every opportunity to put pressure on Britain to impose economic sanctions against Pretoria. It may well be that they were right. And it's worth remembering that Commonwealth pressure on Britain at the 1979 conference in

Lusaka helped pave the way to an independent Zimbabwe. What the row has done is to divert attention from the Commonwealth's valuable work as a development agency. It can be even more effective if it operates in a democratic environment. The Commonwealth must also recover an integrity which has been undermined by its selective morality. It rightly condemned the evils of apartheid; yet all too often turned a blind eye to abuses by its authoritarian member states.

Reform is under way, but more should be done. Monitoring and publicising human rights violations in member countries is one step. It should also be made clear that members have subscribed to a set of principles which cannot be broken with impunity.

The Commonwealth could decline into an irrelevant by-product of British colonial history; or it could become a force for good governance, in a constituency that embraces a quarter of the world's population, by putting democratic principles into practice. Decisions in Cyprus could determine which route it takes.

The life or death of City institutions is from time to time decided in the 18th century elegance of the Bank of England's Parlours, where the governor and his court of directors have their offices.

One of these rare occasions, until very recently a closely guarded secret, was the weekend of July 13-14 1991, when the then deputy governor, Mr Eddie George - the current governor - launched a £240m financial lifeboat to rescue two small banks, the National Mortgage Bank (NMB), a subsidiary of the mortgage provider National Home Loans, and the City Merchants Bank, part of the Invesco MIM investment group.

The Bank remains reluctant to discuss the episode in detail. However it has been learnt that in the following seven months the Bank intervened to support two other institutions, Union Discount, a leading discount house or trader in debt securities, and East Trust, a tiny East Anglian bank.

Large sums of public money were at risk. The Bank expects to make losses of £115m on the loans it made to these institutions, mainly because of the problems of National Mortgage Bank. As a result, the Bank last year cut the dividend it pays the Treasury by almost £30m to £38m.

The Bank argues that the money was well spent because it prevented a domino effect of failures among small banks. It says it followed its often repeated policy of only intervening to save an ailing bank when there is a grave danger to other banks or the financial system.

It is acutely conscious, it maintains, of the so-called "moral hazard" that if no bank were allowed to fail, depositors would not have to take into account the soundness of a bank before deciding where to place funds, and bank executives would feel under less pressure to manage their businesses prudently.

So the question to be answered in analysing the 1991 lifeboat is how serious was the threat to the banking system.

The central character in the rescue was Mr Brian Quinn, the Bank director responsible for banking supervision. He became concerned that there was a risk of a crisis about October 1990. The recession was causing an unprecedented number of companies to go bankrupt, leading to problems for the banks which had financed them. Those banks with above average exposure to the property sector were facing the biggest losses.

Mr Quinn instructed the Bank's supervisory department to identify the weakest banks and monitor them particularly closely. At this stage, he was prepared to allow troubled banks to close. Between mid-1990 and the spring of 1991, British and Commonwealth Merchant Bank, Authority Bank, Chancery Bank and Edington all ran into financial difficulties and went into administration.

However the closure of these banks caused serious losses for one group of wholesale depositors - local authorities, which had been attracted by the higher interest rates available at smaller banks. They therefore started to transfer their savings out of other small banks and into the big clearing banks. Overseas banks and then big companies followed the local authorities' lead.

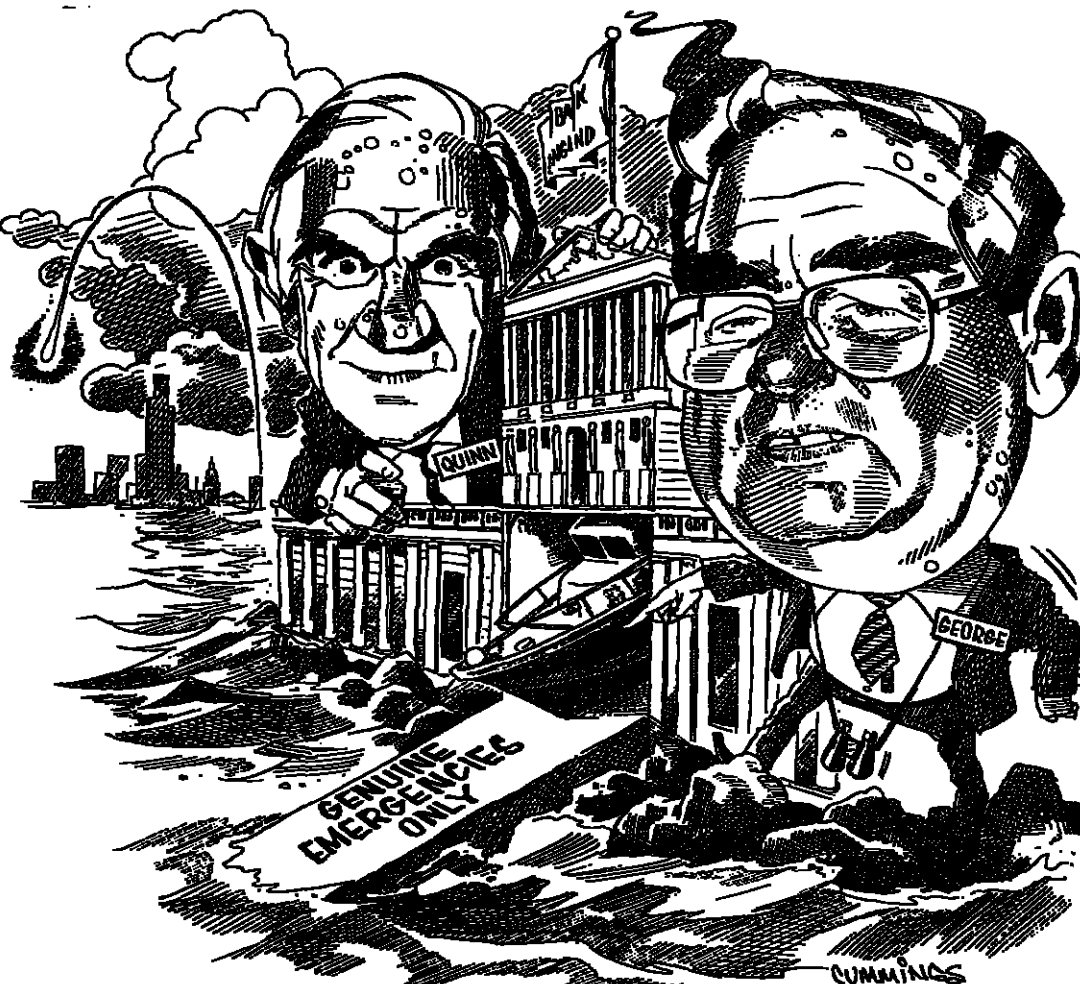
This "flight to quality", in Mr Quinn's words, accelerated after the closure of the corrupt Bank of Credit and Commerce International, Eddie George, Mr Quinn and senior managers from the supervisory department were at the Bank deciding whether and how any such rescue should be made.

The decision was difficult. NMB and City Merchants Bank were vulnerable because they had imprudently relied too much on wholesale depositors, rather than attracting a greater number of retail depositors, who tend to be more loyal.

Though the Bank believed that in other respects NMB and City Merchants Bank were sound - a false belief in the case of NMB whose financial position continued to de-

# Silent launch of the lifeboat

Robert Peston unravels a Bank of England operation to avert a possible threat to the UK financial system



regarded as an emerging crisis, it hoped to persuade the clearers to contribute to a lifeboat, since they had participated on the two previous occasions when the Bank had organised a rescue: in 1973 the Bank and clearers launched a £1bn lifeboat to save a raft of small banks known as the secondary banks; and in 1984, they provided financial support to Johnson Matthey Bankers, which had run into difficulties because of bad loans.

However on the most recent occasion when the clearers were sounded out, in March 1991, they indicated that their days of risking their capital for the good of the City were over. "The clearing banks had become much more profit-oriented, more hard-nosed than in 1974," says Mr Quinn. A clearing bank chairman adds: "We could not see why we should risk our capital to prop up a competitor." In any rescue the Bank would be on its own.

By the end of the second week of July, the rate of cash outflow at NMB and the City Merchants Bank meant that without help from the Bank they would have to shut their doors and cease operations within a matter of days. That weekend, Mr Eddie George, Mr Quinn and senior managers from the supervisory department were at the Bank deciding whether and how any such rescue should be made.

The decision was difficult. NMB and City Merchants Bank were vulnerable because they had imprudently relied too much on wholesale depositors, rather than attracting a greater number of retail depositors, who tend to be more loyal.

Though the Bank believed that in other respects NMB and City Merchants Bank were sound - a false belief in the case of NMB whose financial position continued to de-

teriorate and is currently being wound up - there was a case for letting them collapse as a warning to other banks.

Mr Quinn has always maintained that a central bank should only intervene to rescue a bank in order "to prevent systemic failure". The Bank would always intervene if a clearing bank ran into difficulties and put at risk the nationwide system for making payments. Similarly, it would take action to prevent a general collapse of confidence in banks and building societies as a safe haven for funds.

But the closures of NMB and City Merchants Bank were unlikely to have led to such apocalyptic out-

comes. They were not well known and were small. City Merchants had loans on its balance sheet of £130m and NMB had made loans of £431m. Indeed Mr Quinn says that he did not feel the clearing banks were in "any danger".

There might have been a knock-on effect on confidence in building societies from a closure of NMB, since it was owned by a high profile mortgage provider, National Home Loans. At the time, investors' confidence in building societies was at a low ebb and four weeks later there was a run on a small society, the Southdown, which was subsequently merged with the Leeds.

However, the precise nature of the risk to the financial system perceived by the Bank was limited, says a government official, who took a close interest in the episode. He says: "The Bank feared there would be a loss of confidence which would lead to a withdrawal of funds from a group of medium-sized banks. If a great number of those closed, that could have done damage to the economy, by eliminating an important source of credit."

The alarm at the Bank was great. One banker who visited it at about this time says: "I have never seen it in such a turmoil. It was like Waterloo station, with doors slamming, people running about."

Commercial bankers, however, dispute that many small banks would have had to close. The better-known smaller banks were protected either by strong parent companies or by balance sheets containing substantial cash reserves. "The idea that this was a repeat of the secondary banking crisis is a joke," says a senior clearing banker.

Nonetheless, Mr George decided to attempt a rescue. He sought the agreement of the governor, the then Robin Leigh-Pemberton, now Lord Kingsdown, who informed Mr Norman Lamont, the then chancellor.

The Treasury's permission would have been required if the Bank wanted access to public funds in addition to its own resources. But the Bank had sufficient capital on its own balance sheet. Despite this an official said that the government viewed the Bank's arguments for intervening as "plausible" and supported it.

Having decided to go ahead, the Bank then implemented the rescue in a way designed to keep it a secret. The Bank feared that if it were seen to be intervening - if its analysis of the weakness of the

banking sector became widely known - this would precipitate an even more serious run on deposits. The clearers were to provide the rescue loans and pretend that they were normal credit lines. However, these loans would be fully guaranteed by the Bank. The clearers received a small payment for managing the loans. Substantial fees and interest accrued to the Bank but it was also forced to bear any losses on the loans. They were, in effect, loans from the Bank.

Thus Barclays arranged a £200m loan from a syndicate of banks for NMB and NatWest arranged a £40m facility for City Merchants Bank.

Though NMB and City Merchants Bank were secure for the time being, the Bank continued to monitor small banks with exceptional thoroughness for many more months. The next bank it rescued was the Norwich-based East Trust, which has since closed. By the weekend of July 20-21, East Trust was planning to go into administration because it had run out of cash.

The Bank put pressure on two of East Trust's bankers, Hambros and Royal Bank of Scotland, to unfreeze credit lines and persuade East Trust to continue trading. On the following Tuesday, it told East to visit Barclays, which unexpectedly offered it a £7m loan facility. It is not known whether this facility was guaranteed by the Bank.

The Bank's final intervention to help an institution was in February 1992, when a loan facility was arranged for Union Discount. This was a special case, as Union was not a lending bank. It was, however, making big losses due to a diversification into leasing.

As a discount house, Union enjoyed the privilege of dealing directly with the Bank in the market for commercial and treasury bills. It was therefore an important prop in the Bank's system for controlling monetary conditions. The Bank wanted to ensure there was no possibility of Union running into difficulties and it therefore arranged the loan for it.

However, Union today regards this facility as a mixed blessing, because of the Bank's insistence that the loan be secret. Union wanted to raise capital through a rights issue earlier this year, but was prevented from doing so because under stock exchange rules it would have had to disclose the loan in its rights issue document. Instead, it was forced to sell one of its best businesses, Winterlood Securities.

After Union, there were no further rescues. But the Bank's anxiety about the banking system was not dissipated till September 16 when sterling withdrew from the exchange rate mechanism. The subsequent drop in interest rates and signs of economic recovery made wholesale depositors less worried about the impact of bankruptcies on the prospects of smaller UK banks.

A severe recession had been weathered without serious disruption to financial markets. But the price paid for this stability was significant and not merely in terms of the Bank's predicted losses from its rescue loans. Another cost was the moral hazard of perpetuating the widespread belief that the Bank prefers to rescue troubled banks rather than allowing the market to sort the weak from the strong.

Bankers are always likely to question the Bank's motives when it launches rescues because it combines the roles of lender of last resort and a supervisor with responsibility for protecting depositors. Many believe that the Bank is too concerned about the likely outcry from depositors in the event of a bank failure and that it is therefore too quick to use its lending powers.

The most effective way to minimise the moral hazard may be to demote into a new City watchdog the Bank's supervisory role as protector of deposits. If the Bank retained only its lender of last resort function, its interventions to rescue banks would be seen to be motivated by a concern for the health of the financial system and not the wealth of depositors.

## OBSERVER



for his going.

He felt the affair was becoming too "personalised", which must surely translate into the concern, that, were he to stay, the whole endeavour might founder on the issue of which of the two federation chiefs, he or Howard Davies, emerged as top dog.

Whatever his motives, Johnson's departure is unlikely to have done his career much harm, for the Sandhurst-educated industrialist has proved himself a highly articulate and affable advocate of the cause since his arrival in July last year.

He has got away with saying some pretty damning things about

the government, even if he may have been a trifle demagogic in his latest criticism of Treasury officials as "totally unspooled by failure".

He says he had several offers of non-executive directorships when time did not permit him to say yes. He will be hoping the phone rings again.

### All agog

Two City giants seek lyrically-minded companions for adventure in verse leading to possible publication.

Gog and Magog's little tome, *Poems from the Square Mile*, piqued Observer's interest sufficiently to attempt to run to earth the two coyly anonymous scribes.

No doubt well-informed by virtue of their privileged position guarding the entrance to the Guildhall, the pair recently penned an irreverent collection of verse and worse depicting the London financial community at work and play - the likes of "If Walt Whitman had been a BCCI depositor", or, with apologies to William Shakespeare, "Where the firm sucks, there suck I".

It transpires that Gog, alias barrister Anthony Belchambers, first put pen to paper out of "exasperation" and "tedium" when, as general counsel to a lobbying group, the so-called joint exchanges committee, he was earning his crust attempting to cut through the

growing tangle of rules and regulations in the financial world.

Initially horrified at the idea of his specialist outfit stooping to poetry, Cambridge publisher Martin Woodhead was won round to the idea, and is even keen enough to want to repeat the exercise.

But newly appointed executive director of the Futures & Options Association, Belchambers is too busy (and too far back inside the establishment fold) to provide his share of the 1994 sequel.

Magog, who wishes to remain anonymous until he retires in about a year, will offer some material, and Gog's pen has not dried up entirely. But Woodhead wishes to tap the talents and frustrations of a broader section of City folk.

Aspiring scribblers, teenage upwards, should submit copy, anonymously if they wish, by the end of February 1994 to Martin Woodhead, managing director, Woodhead Publishing Limited, Abington Hall, Abington, Cambridge CB1 6AH.

### Dog eet dog

Ian Baillie, senior European partner of American law firm Ladas & Parry gives as good as he gets. Following Observer's latest lawyer joke, he bites back with his own journalist joke, viz that 500 of the breed at the bottom of the sea guarantees, in his opinion, "peace, quiet and accuracy". (Sorry, Iain).



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# FINANCIAL TIMES

Tuesday October 19 1993

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Minister says plans for RAF N-missile abandoned

## UK to sell two navy yards in savings drive

By David White and Philip Stephens in London

THE UK GOVERNMENT plans to sell the navy dockyards at Devonport and Rosyth to the private sector by 1996 as part of a drive for defence savings.

Mr Malcolm Rifkind, defence secretary, announced yesterday that tenders for the two refitting yards, currently run by private companies under contract, would be invited early next year.

He also confirmed that the government was abandoning plans for an air-launched nuclear missile for the Royal Air Force. However, in the midst of a growing row about expenditure cuts, officials made clear that neither measure would bring early savings to the defence budget.

Mr Rifkind's announcements at the start of a two-day Commons defence debate coincided with a strong warning from the all-party defence committee about the impact of further cuts.

A committee report said the armed forces' capabilities would be reduced to "below the minimum necessary for the security of the UK". Sir Nicholas Bonsor, its Tory chairman, said there was "no room whatsoever" for more reductions.

The warning came as Mr Rifkind remained locked in a cabinet battle to fend off Treasury

demands for billions of pounds worth of spending cuts during the second half of the 1990s.

Backed by warnings from senior Tory MPs about the dangers of further cuts, Mr Rifkind said that provision of sufficient resources was "fundamental" to confidence in the armed forces. He told the Commons "arbitrary"

**RAF faces end to V-bomber saga** Page 8

Cuts in defence spending would undermine Britain's ability to meet its security commitments.

Earlier a ministerial meeting chaired by Mr John Major, the prime minister, failed to bridge the gap between the Treasury and the Ministry of Defence despite the mediation of Mr Douglas Hurd, foreign secretary.

Mr Rifkind has demanded a full-scale review of all of Britain's military commitments as the price for any significant cuts in the £24bn budget. But Mr Major is concerned that such a review would provoke a storm of criticism from backbench MPs and Conservative supporters.

Ministers said that main battle focused on Mr Rifkind's budget for the 1996-97 financial year, which would provide the effective baseline for defence spending into the next century. The

Treasury and MoD were said to be "billions of pounds apart".

Cancellation of the missile plan had been expected for months on the grounds of a reduced need for nuclear weapons. Defence officials said a "notional" provision of £1.8bn had been made for the missile and its warhead in budget plans, but the anticipated expenditure was some years away.

Instead of an air-launched weapon, Britain will use its Trident submarine missiles both as a strategic and as a more limited sub-strategic weapon. Officials said the Trident could be adapted to the sub-strategic role for "almost nothing", and would not need a new warhead. However, they said the government would maintain the Atomic Weapons Establishment's capacity to design and produce warheads.

The move to outright privatisation of the dockyards follows the government's controversial decision in June to carry out all navy submarine refits at Devonport.

It aims to transfer ownership of the two yards to separate bidders to maintain competition. Mr Rifkind said the government remained committed to a "substantial programme" of allocated work for Rosyth.

British Aerospace and GEC, the UK's two principal defence companies, are expected to be among the bidders.

## Japanese begin debate on political reforms

By William Dawkins in Tokyo

JAPAN'S lower house of parliament began its first full-scale debate yesterday on the new government's plan for the most radical reform of the political system since the 1940s.

Mr Morihiro Hosokawa, the prime minister, has staked his political reputation on passing the four reform bills by the end of the year, widely interpreted as a pledge to resign if they fail. Political observers agreed yesterday that Mr Hosokawa's chances are finely balanced, in spite of his high popularity.

The bills, prepared by the seven party coalition, aim to end the corruption that contributed to last July's election defeat of the conservative Liberal Democratic party after 38 years in power and after several failed attempts at reform.

Under the present system, the lower chamber has a multi-seat constituency system, discredited for putting candidates of the same party against each other, so encouraging them to use money and influence, rather than policies, to attract votes.

The government proposals would create a 500 seat lower chamber, in place of the present 511 seats, of which 290 would be in single seat constituencies and 250 chosen by proportional representation.

Corporate donations to individual politicians would be banned, although companies would be allowed to give cash to political parties. There would be a state subsidy of ¥41.4bn (\$390m) a year to parties, to distribute to politicians.

Mr Hosokawa said yesterday he wanted to push the reform plans through the House of Representatives, the lower chamber, by November 5 to leave enough time for them to get through the House of Councillors, the upper chamber, by the end of the year.

His chances of success are complicated by the fact that an unknown number of members of the Social Democratic party, the largest coalition partner, plan to vote against the bills. The SDP is unhappy with single seat constituencies, because it feels it would do less badly under proportional representation.

Some LDP rebels may vote with the coalition, but it is not yet clear whether there will be enough defectors to give the government a majority.

Soon after the election defeat, many in the LDP felt the reform debate would be a chance to bring down Mr Hosokawa quickly. However, the LDP might suffer if it were publicly held responsible for derailing Mr Hosokawa and political reform, political observers say.

Steelworkers' enforced holidays, Page 6  
Record first-half surplus, Page 6

THE LEX COLUMN

## Trafalgar's call of duty

Trafalgar House's decision to tap shareholders for up to £400m more is a measure of the extent to which it was shaken to its very foundations in the wake of the Davy affair. It hardly reflects well on the new management to have announced yet more provisions so soon after the £100m charge unveiled in February. The cynical view is that some of the bad news was held back then for fear of breaching banking covenants. The more charitable interpretation is that it has simply taken the new management this long to uncover the size of the problem.

One might expect the company's fortunes to recover, albeit slowly, from now on. But the leeway afforded by the new injection of capital is limited. As this year's profits expectations have been lowered yet again, the base for earnings and dividend growth looks disconcertingly small. Also, convertible preference shares are an expensive form of finance. Trafalgar will have to make the money sweat to produce a decent return.

That may not matter to Hongkong Land, which can take a long term view. It cannot afford, however, to ignore other investors. For the time being, these have little choice but to go along with its plan. They may even find the preference shares attractive because they offer a secure yield as well as an equity link. Switching prospects probably fuelled yesterday's 12 per cent fall in Trafalgar's shares. But for the recovery plan to work, preference holders must eventually exercise their conversion rights. That will require the re-establishment of a progressive dividend. Hongkong Land must hope that the institutions' patience will last.

### Do It All

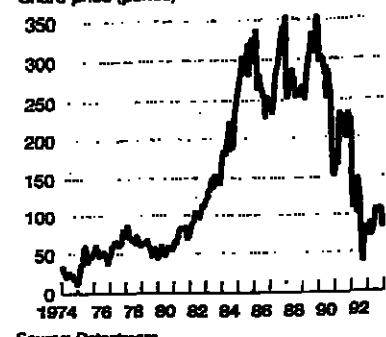
Yesterday's statement from WH Smith and Boots on the future of Do It All had the feel of a holding action. Perhaps that was inevitable, given that press chatter was in danger of crowding out reality. Yet since discussions about closing sites or assigning leases to others are at an early stage, the vagueness on the cost of rationalisation leaves many questions unanswered. There seems little alternative but to wait and see, since Do It All is hardly going to compromise its negotiating position with potential buyers by going public at this stage.

Nevertheless, with many sites on long leases, the costs of disposal could well be considerable. They are clearly high enough to rule out the pain of

FT-SE Index: 3137.6 (+16.8)

### Trafalgar House

Share price (pence)



Source: Datastream

total closure at this stage. On the other hand, the increased spend on converting more stores to the new trading concept is welcome. Both partners are now prepared to back their faith that part of the chain can be made viable with some new cash. At the previous rate of roll out, the new trading concept was in danger of becoming an old trading concept before half the stores had been converted. But the rest of the do-it-yourself market is hardly going to stand still while Do It All fiddles. The so-called category-killing retailers in the US have made their way by combining price and range with service, a trend which will catch on in the UK. Do It All's recovery still turns on the questionable assumption that it can become sufficiently different to escape the shadow of its more successful rivals.

### Groupe Bull

France's troubled computer maker may suffer from many of the same ills as its one-time mentor IBM, but the French government has helped concoct a very different remedy. The government will inject FF77bn into the company to plug the gaping holes in its balance sheet and is encouraging other shareholders, such as France Telecom, IBM, and NEC to be similarly supportive. Such aid seemingly flies in the face of the EC's strictures on state subsidies. Computer rivals, such as Siemens, Olivetti and ICL will justifiably be angered about the move, which is bound to prolong the agonies of the European industry.

By itself, however, the recapitalisation will do little to ameliorate Bull's

woes. Radical restructuring will have to follow if the company is to have any chance of surviving as a viable entity. The incoming chairman, Mr Jean-Marie Descarpentries, is an iconoclastic industrialist who may well be prepared to mince Bull's sacred cows into more palatable beefburgers. But it will be a complex task. Bull's heavy reliance on mainframe computers has left it vulnerable to nimble systems. The company may be forced to cut costs mercilessly and focus on more selective products and markets. It will also have to move fast to resolve its troubles in the US market following the disastrous Zenith acquisition.

Bull retains considerable technological strengths and a powerful position in its home market. But unless Mr Descarpentries works wonders, the government's hope for an early privatisation looks ambitious.

### Waste Management

Waste Management International has had a rollercoaster ride since 20 per cent of its shares were offered for sale in April last year. Having underperformed the market by 30 per cent in that period, the shares now stand a shade below the offer price. Third-quarter figures are unlikely to dispel lingering doubts. Delay in gaining government approvals for landfill sites in Italy is the main reason for disappointment. Even assuming that WMI can find a way through the Italian labyrinth, the episode underlines the scope for political interference.

Stripping out construction profits which boosted the bottom line last year, the waste business is still growing at around 25 per cent a year. The group's prodigious acquisitions programme - 34 deals completed so far this year - underpins this rate of progress. Earnings momentum depends on WMI's ability to digest enough prey without swallowing a dud. Gearing does not look especially high, at least under the US accounting rules the company prefers. The snag is that amortising acquired goodwill through the profit and loss account in the US manner - rather than writing it off to reserves - shows earnings per share are no higher than this time last year.

With almost 70 per cent of the free float now held in the US, up from 45 per cent at the time of flotation, that is of more than academic interest. The long-term arguments in favour of waste management remain convincing, but WMI will struggle to regain a premium rating.

## France urged to seek third world support over Gatt

By David Buchan in Paris and Quentin Peel in Bonn

FRANCE was urged yesterday to seek support from developing countries to counter the Cairns group of food exporters, which has sided with Washington in the dispute over farm trade subsidies.

The suggestion was put to Mr Edouard Balladur, the French prime minister, by Mr Luc Guyau, leader of PNSEA, the main French farmers' union.

Mr Guyau suggested that France should invite developing countries to a conference on the Gatt agricultural issue, to show that "defence of French and European agriculture is not directed at them, but rather constitutes a factor of world balance".

France has long argued that a hungry world needs French food.

But Mr Guyau's idea stemmed as much from a desire to replicate in agriculture the success that President François Mitterrand had over a cultural issue on Sunday, at the summit of French-speaking countries in Mauritius.

The French president got leaders of the 47 countries and regions to side with French demands that broadcasting and films should be protected from US "cultural imperialism" and excluded from any Gatt accord.

Meanwhile, Mr Günter Rexrodt, Germany's economics minister, urged continued flexibility from both the US and the European Commission yesterday in their negotiations to conclude the Gatt round.

In a telephone call to Mr Mickey Kantor, the US trade representative, he called on both sides not to "dig themselves into their present positions".

Although no details emerged of his apparent mediation effort, a German official said there appeared to be some possibility of movement on the question of tariffs and customs duties, concerning textiles, on the US side, and non-ferrous metals, on the EC side.

However, he quoted Mr Kantor as saying that he was "unable to see any significant movement" from the EC side in the talks.

Germany is clearly concerned at the apparent lack of flexibility on the US side in the talks, fearing that the simultaneous negotiations to finalise the north American free trade area make it impossible for Washington to make any other concessions on the Gatt. Mr Rexrodt is apparently seeking any area of possible movement in the talks.

Balladur seeks consensus, Page 5

## Morgan Guaranty lowers prime rate

Continued from Page 1

assets has soared to record levels; US banks are now better capitalised than many of their foreign competitors.

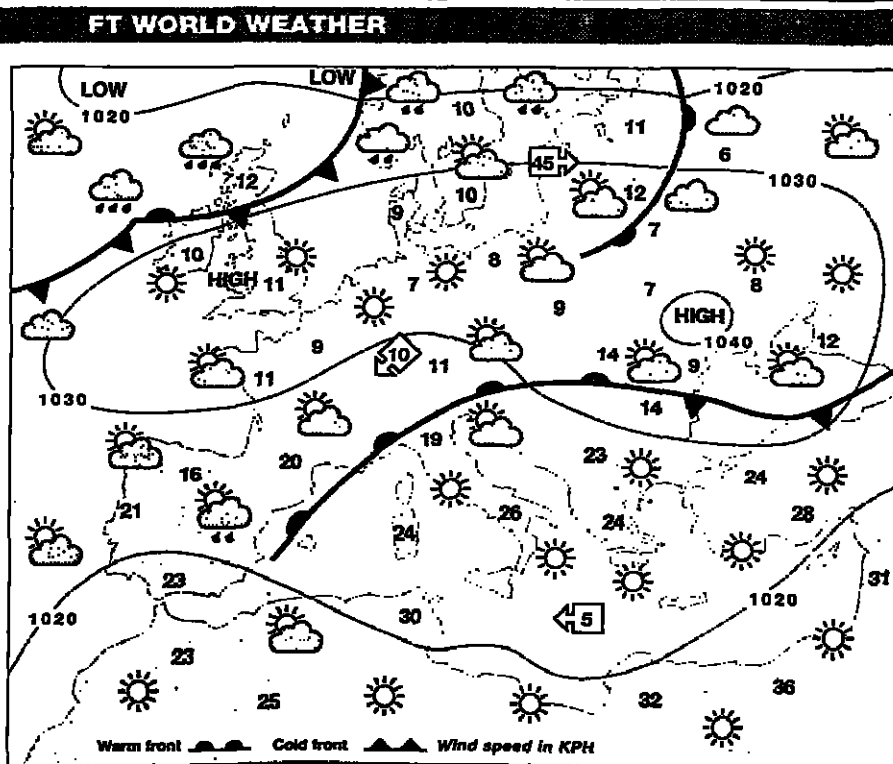
Banks can thus afford to cut

prime rate but have not done so because loan demand from small companies and consumer remains weak.

Many fear that the loss of profits on outstanding loans would offset any gain in business

from cheaper borrowing rates.

Morgan Guaranty has less to lose than many other large banks from cutting prime because only a relatively small fraction of its lending is to pegged to prime.



### TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	32	Amsterdam	10	London	10
Algiers	24	Antwerp	10	Madrid	18
Athens	24	Berlin	10	Moscow	10
Bahia	24	Bombay	28	Nairobi	24
Bangkok	28	Buenos Aires	18	Paris	12
Barcelona	18	Cairo	24	Rome	14
Beijing	10	Cape Town	20	Sao Paulo	24
		Cebu	28	Tokyo	14
		Dubai	28	Winnipeg	-12
		Hong Kong	24	Zurich	10

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteor Consult of the Netherlands

Location	Temp	Location	Temp	Location	Temp
Cardiff	10	Frankfurt	10	Malta	20
Chicago	10	Geneva	10	Manchester	10
Cologne	10	Glasgow	10	Maracaibo	28
Dallas	10	Hamburg	10	Medan	28
Doha	10	Helsinki	10	Montevideo	18
Dublin	10	Hong Kong	24	Moscow	10
Edinburgh	10	Honolulu	24	Mumbai	28
Faro	10	Istanbul	10	Nairobi	24
		Jersey	10	Paris	12
		Karachi	24	Rome	14
		Kuala Lumpur	28	Sao Paulo	24
		Las Vegas	18	Tokyo	14
		Lima	18	Winnipeg	-12
		London	10	Zurich	10
		Luxembourg	10		
		Madrid	18		
		Moscow	10		
		Mytilene	10		
		Nairobi	24		
		Naples	18		
		Nassau	24		
		New York	10		
		Nice	18		
		Nicosia	24		
		Olo	10		
		Osaka	18		
		Perth	10		
		Prague	10		
		Rangoon	28		
		Reykjavik	10		



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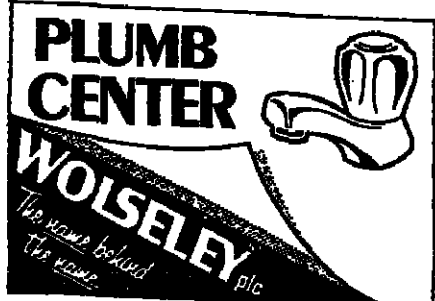
The undersigned acted as advisor to British Aerospace plc.

**JPMorgan**

August 1993

This announcement appears as a matter of record only.

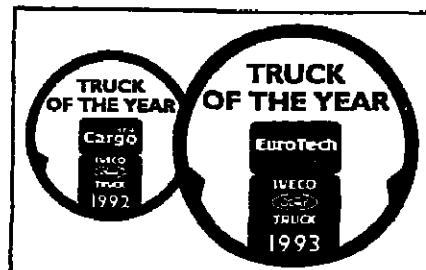




# FINANCIAL TIMES COMPANIES & MARKETS

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Tuesday October 19 1993



## INSIDE

### Schneider chief defends rights issue

Mr Didier Peneau-Valencienne, president of Schneider, has claimed that recent allegations of fraud had been "intentionally" timed to disrupt the French engineering and construction group's forthcoming FFr7bn (\$5.1bn) rights issue. Page 18

### Big job for Jobs

Mr Steven Jobs, co-founder of Apple Computer, is trying to convince the corporate world that the fledgling software firm's new venture NeXT Computer is the answer to its data processing problems. Page 20

### Japan's shops feel the pinch

Japan's retail industry is experiencing the worst fall in consumer confidence this decade. A fall in real income and rising fears of redundancy are hitting household spending, and interim results in the past week show leading supermarket chains are also feeling the pinch. Page 21

### Farnell buys ITT unit

Farnell Electronics, the electronics components distributor and manufacturer, is paying \$69.8m in cash to acquire Multicomponents from ITT, the US conglomerate. The proposed acquisition will make Farnell the second largest distributor in Europe after Arrow Electronics and place it among the top six in the world. Page 24

### Christian Salvesen's Swift move

Christian Salvesen, the distribution, specialist hire and manufacturing group, will pay \$23.9m (\$126m) for Swift Distribution Holdings, a delivery company for the automotive and engineering industries. Page 25

### Waste group slips 3%

Waste Management International, the UK-listed arm of WMX Technologies of the US, saw third quarter pre-tax profits which slipped 3 per cent to \$38.88m (\$58.3m). Page 26

### Locust plague threat beaten

India has controlled the worst locust invasion in more than three decades, the Ministry of Agriculture says. The locust control operation has averted an agricultural crisis of frightening dimensions, with India's richest agricultural land under threat. Page 26

### Equities step up a gear

With few exceptions the world's equity markets stepped up a gear last week leading to a fresh spate of record highs. The FT-Accumulated World Index rose 1.2 per cent, with the best gains coming from the Far East and Latin America. Back Page

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### Chief price changes yesterday

FRANKFURT (DM)		Cash Price	12/15	22
Alcoa	780.5	+ 17.5	Or Parc France	1190
Automated Sec	615	+ 30	Environica	2100
Bayer	428.5	+ 7.5	Falco	30
Bombardier	1110	+ 20	Reduto	945
Bois de France	297.5	+ 14.5	SLC	830
Wells Pk	250.3	+ 15.3		

New York prices at 12:30pm.				
LONDON (Pence)				
Alcan			R James Place	174 + 10
Am Consulting	58 + 10		Shapiro	168 + 15
Automated Sec	142 + 23		Sturgis Mfg	63 + 7
Beasco	101 + 5		Stantec Inc	51 + 4
Blackburn	86		Verdon	108 + 9
Castle Combe	180 + 10		WSP Hdgcs	48 + 6
Cheltenham Town			Wells	28 + 4
	128 + 8		Perkins	
Chilton Gray		7	Atlas	126 + 5
2424rd		12	Bellman	103 + 12
Compton Elect	485 + 26		Bell Associates	83 - 18
Herring Sales	62		BTG Associates	109 - 8
Henry Isals	242		Tatelman Hrg	108 - 6
524th		7 1/2	Trotter Hrg	85 - 11 1/2

## Bull to get FFr7bn state support

By John Ridding in Paris and Andrew Hill in Brussels

THE FRENCH government yesterday announced a FFr7bn (\$1.23bn) capital injection for Groupe Bull, the loss-making computer group, and the replacement of its chairman.

Mr Gérard Longuet, French industry minister, said this would be the last time the government would intervene to support Bull and the company would be privatised as soon as possible.

Mr Bernard Pache, Bull's chairman since June 1992, is to be replaced by Mr Jean-Marie Descarpentrie, former chairman of Carnaud Metalbox (CMB), the Anglo-French packaging group. Industry observers said Mr Descarpentrie had a reputation for tough action and was likely to move quickly to cut costs and reorganise the group, which has lost about FFr15bn over the past three years.

Mr Descarpentrie is expected officially to take over in the middle of next week. In a statement to Bull employees yesterday, he expressed confidence that the company could be returned to profitability. The priority was rapidly to improve efficiency.

In addition to the FFr7bn allocation from the government, which Bull will receive this year and next, the company's other principal shareholders are expected to contribute. France Telecom, which owns 16 per cent, will provide FFr1.5bn in new capital. NEC, of Japan, and IBM, of the

US, which together hold about 10 per cent, have been asked for FFr700m.

The capital raising will largely eliminate Bull's borrowings which stand at about FFr9.5bn. But it is likely to arouse concern at the European Commission.

Earlier this month, the EC launched an inquiry into a FFr2.5bn capital allocation for Bull made by the previous French government.

Mr Karel Van Miert, the EC competition commissioner, yesterday told the FT that the commission would look closely at the latest capital injection. "We will certainly examine it with an open mind, but bearing in mind what has happened in the past, we will need to be convinced."

## Primerica up 57% thanks to brokerage

By Patrick Harverson in New York

PRIMERICA, the financial services group which last month announced an agreed bid for the US insurer Travelers, yesterday reported a 57 per cent improvement in third-quarter profits, to \$258.7m.

The strong performance was fuelled by another record quarter from Primerica's Wall Street brokerage subsidiary, Smith Barney Shearson.

The group's overall results, however, were affected by a string of special factors. They included \$80.6m in gains from portfolio investments and sales of subsidiaries and affiliates; a \$65m provision for the cost of the merger between Smith Barney and Shearson; and an \$8.1m charge related to a recently enacted tax increase. Once these factors were stripped out, Primerica's third-quarter operating earnings came in at \$242.2m, up 77 per cent from a year ago.

Smith Barney Shearson again proved to be the star of Primerica's show. The firm, the second-largest brokerage house in the US after Merrill Lynch, earned \$118.8m in the quarter, which includes two months' results from Shearson following its acquisition on July 31.

Like other Wall Street firms, Smith Barney Shearson continues to benefit from heavy interest in the stock and bond markets among individual investors, strong demand for asset management services, and record-breaking underwriting activity on the US capital markets.

Mr Wells described Primerica's third quarter as "gratifying and exciting". He said the steady improvement in Travelers' operating performance meant that once the insurance company was merged into Primerica, the combined group should have a prosperous future.

Travelers' results, also announced yesterday, were not as sparkling as Primerica's. It reported a net loss of \$38m in the quarter, blaming a \$211m charge following a \$325m addition to its reserves to cover asbestos and environmental claims.

Excluding the charge and a \$40m one-off tax benefit, Travelers earned \$135m in the third quarter, compared with a \$358m loss at the same stage of 1992. That loss was due mostly to Hurricane Andrew and corporate restructuring.

## Shares fall as rights issue is confirmed ■ Group says more provisions are likely

By David Blackwell in London

THE SHARE price of Trafalgar House fell 11 1/4p to close at 85p yesterday after the UK construction and engineering group announced plans to raise up to \$400m (\$600m) in a rights issue and made a profit warning.

Analysts reduced an estimate of \$50m before tax and provisions for the year to September 30.

Trafalgar House said it was getting inde-

pendent valuations of its property. As a result, it expected to make further substantial provisions in addition to the \$100m taken at the halfway stage.

The convertible preference share issue will be the group's third cash call in two years. Mr Simon Keswick, chairman, said the growing engineering and construction division required a stronger capital base.

Hongkong Land, which has a 25 per cent stake, confirmed that it would subscribe for its full share of the issue, details of

which will be announced in December with annual results.

Mr Allan Gormly, chief executive, said that net debt had fallen below \$300m by the end of September, and the group should be unencumbered after the rights issue.

It confirmed that the final dividend would be 2p per ordinary share, to be paid from reserves. Mr Keswick said the rights issue would be made through preference shares because investors were entitled to feel confident they would get a return on

their money.

He is stepping down as chief executive next August to become the chairman of Royal Insurance Holdings. He will remain on Trafalgar House's board as a non-executive director. His replacement will be Mr Nigel Rich, 47, managing director of Jardine Matheson Holdings, which controls Hongkong Land. Mr John Olsen, chief executive of Cunard and managing director of the group's shipping and hotels division, joined the board.

## Another attempt to clear the decks for recovery

By Peter Montagnon

IT IS ALWAYS dangerous to call the turn in a company's fortunes, but yesterday's profits warning and rights issue announcement from Trafalgar House might just about mark the nadir for a company that has lurched from problem to problem since its ill-fated takeover of Davy in 1991.

At least that is the way its new chairman, Mr Simon Keswick of the Hongkong Land group, presents it. Assuming its new convertible preference shares are counted as capital, Trafalgar will have no net debt once its planned rights issue is complete. It will also then have shareholders' funds commensurate with its \$40m (\$60m) turnover.

"It'll be the strongest engineering conglomerate almost in existence," says Mr Keswick, adding that he believes regarding inappropriate for cyclical businesses such as those in which Trafalgar House is engaged. He says Trafalgar will have the financial strength to take equity stakes in the privately-financed infrastructure projects which are becoming increasingly fashionable.

The aim of rebuilding Trafalgar's financial strength so that it

can compete in the construction and engineering project business also explains its decision to reorganise its banking facilities. Its new arrangements with the HSBC Group will reduce the number of its banking relationships to between five and 10 from around 80 at present.

Most importantly they will carry more flexible covenants. Though Trafalgar will not admit it, it is widely thought the covenants under its old arrangements limited the provisions it was able to make at the time of its previous rights issue in February.

The vision of the new Trafalgar is one of a company centred on construction, engineering, and shipping. Yesterday's announcement also leaves few doubts that a lot more effort will be required to turn the vision into reality.

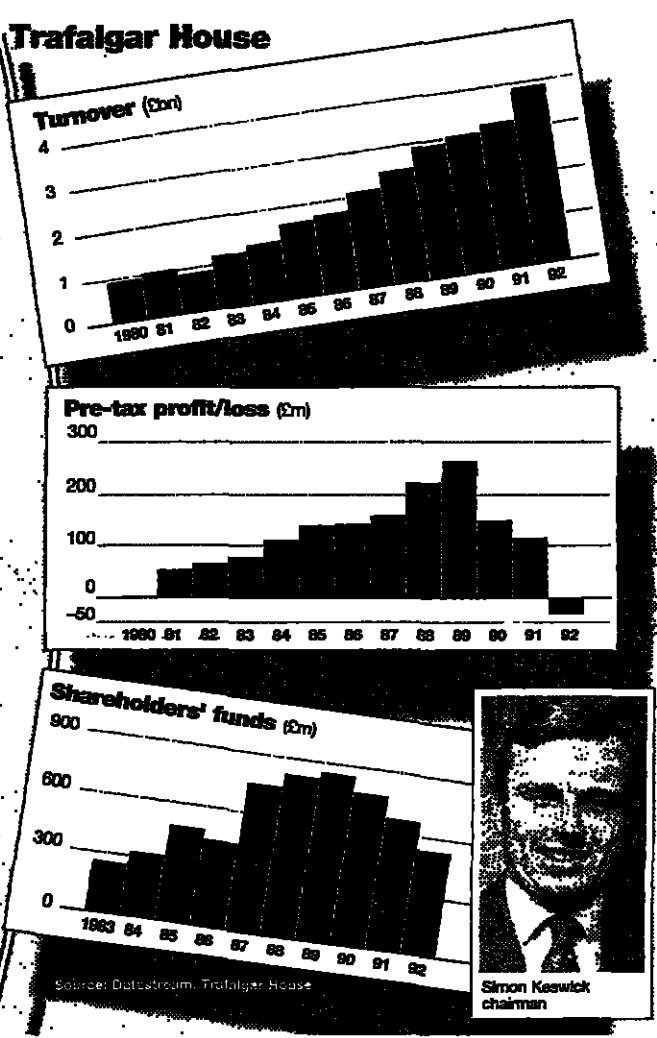
Trafalgar's decision to launch a rights issue in the form of interest-bearing convertible preference shares rather than equity is a tacit admission that, although it is sticking to its promise of a 2p final dividend, it will be a long time before ordinary shareholders can expect much of a return on their investment. Moreover, the company has also been unable to dispose of unwanted assets as quickly as it expected.

Trafalgar argues its latest write-downs are the result of a more exhaustive appraisal of its business prospects.

Its new finance director only arrived in June, after its last rights issue in February when it announced provisions of \$100m, mainly on its commercial property portfolio. That gives the impression that the decks are being cleared for recovery, especially as the company indicated yesterday that it was experiencing a modest inflow of cash from advance payments for contracts, better management of working capital and property sales.

Provided the momentum can be maintained, investors may give Hongkong Land their support despite the unorthodox way it has taken control of the company without making a full bid.

Mr Keswick says that, having paid US\$500m for its 25 per cent share, Hongkong Land itself "has taken a very considerable risk". He also admits, though, that UK institutions would be the first to round on Hongkong Land's reluctance to take full responsibility itself if the new management fails to make good. Lex, Page 16



## Paris welcomes BNP to market with 18% premium

By Alice Rawsthorn in Paris

SHARES in Banque Nationale de Paris (BNP), the French government's first privatisation candidate, yesterday closed at FFr283.50, an 18 per cent premium to the original FFr240 offer price, at the end of the first day of official trading on the Paris stock market.

BNP's shares opened at FFr277.50, immediately breaching the 15 per cent trading limit for the first day of dealings. The shares were suspended for 15 minutes, only to resume trading at FFr282.50. They then rose to a high of FFr285.90 before settling down to the closing price.

The enthusiastic response to the BNP issue caused chaos on the Paris market as brokers were swamped with orders for shares.

Dealers estimated that some 225m BNP shares changed hands in the first two hours of trading and that around 4m shares were traded during the day, representing 3.4 per cent of the bank's equity.

"It's been crazy, just crazy," said one Paris banking analyst. "It's almost like London used to be during the Thatcherite privatisations back in the 1980s."

The BNP issue, which was priced lower than analysts had expected, was heavily oversubscribed by institutional and individual investors.

The French government was forced to reduce the allocation of equity to institutions to try to satisfy demand from the public. However, it still had to ration the number of shares given to individual investors.

Banking analysts attributed the strong demand for BNP shares to heavy buying from institutions disappointed at their allocations in the original issue. Some individual investors seized their chance to make quick profits by selling their shares.

"The offer price was so low that subscribing for BNP shares almost looked like a licence to make money," said one analyst. "But the French government wanted to make sure that the first privatisation was a success - and it's done it."

The economy ministry, buoyed by the success of the BNP issue, announced that Rhône-Poulenc, the flagship French chemicals company, would be the next privatisation target with Elf Aquitaine, the oil and gas group, scheduled as the third.

## Rewe in UK discounting move

By Andrew Bolger in London

REWE, one of Germany's largest food retailers, is behind a move to open 40 discount food stores in south-east England within two years, stepping up the continental European assault on the discount end of the British market.

The private German company is acting through Budgens, the small UK food retailing chain in which it already has a 29.35 per cent stake. By underwriting a \$30m (\$45.3m) fund-raising exercise by Budgens, Rewe could increase its stake in the UK company to 47.1 per cent by 1995, which would require it to launch a full bid.

Since April, when Rewe bought its initial 26 per cent stake, Budgens has converted seven of its stores to a discount format and

will open another three by December.

Guided by visiting German executives, Budgens has developed a format called Penny Market, which is modelled on Rewe's chain of 1,800 Penny Market discount stores. Budgens said the range would be price-competitive and cover everyday shopping requirements, offering both branded and unbranded goods. The Penny Market stores will stock between 1,200 to 1,800 items - fewer than the average Budgens store, which has 6,000 to 7,000 items.

Several continental European discounters, attracted by the high profit margins in UK food retailing, have opened stores in the last three years, making discounting the fastest-growing area of the UK food market.

Budgens' shares yesterday closed 1p higher at 44p, valuing the company at £71.5m. It will issue, subject to shareholders' approval, \$30m of convertible unsecured loan stock through an open offer and subscription on the basis of £1 of nominal stock for every 5.424 of ordinary shares.

The stock will be convertible at the price of 55p per share between 1995 and 2003. Because the conversion is set at a premium to the existing price, and the offer is being fully underwritten by Rewe, the market expects the German company will take up most of the loan stock.

Budgens said the funds would go to opening new discount stores and further Budgens outlets. The group said competition had adversely affected its results in the last six months.

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## INTERNATIONAL COMPANIES AND FINANCE

## Schneider chairman denies investigation allegations

By David Buchan in Paris

MR DIDIER Pineau-Valencienne, president of Schneider, yesterday claimed that recent allegations of fraud from the authorities and minority shareholders in Belgium had been "intentionally" timed to disrupt the French engineering and construction group's forthcoming FF3bn (\$531m) rights issue.

The issue, whose details have yet to be announced, would allow Schneider to reduce its debt-to-equity ratio to below 1:1, from 1.7:1 last year, the group president said. He also confirmed that Schneider was still ready to give Daimler-Benz, the owner of AEG, a stake in its capital.

However, recent discussions "had run up against the fact that we have considerable difficulty in finding a formula which would protect our mutual interests".

Earlier this month, the Belgian justice authorities announced the opening of a fraud investigation against Mr Pineau-Valencienne. In an interview with Les Echos, the French business daily, he responded to claims that the investigation covered allegations of money-laundering by a company called PB Finance, in which Coffibel, a Schneider subsidiary, has a stake.

"To the best of our knowledge, there is not the slightest mechanism in the structure of PB Finance, as in

our industrial activities in Belgium, which would allow any laundering of any kind," he told Les Echos. "I would add that money was rather burnt than laundered, because PB Finance lost a lot of cash."

Mr Pineau-Valencienne said, although he was president of Coffibel, it was the company's late Belgian administrator who had persuaded him to take a minority stake in PB Finance, controlled by Mr Valentino Foti, an Italian businessman. Belgian minority shareholders of Coffibel and another Schneider subsidiary, Coffimines, had complained about Schneider's bid to buy them out. Schneider, however, was offering 50 per cent above the market price, Mr Pineau-Valencienne said.

## Publicis in merger with FCA

By Alice Rawsthorn in Paris

PUBLICIS, one of France's leading marketing services groups, is expanding its interests by merging with FCA, one of the remaining independent French advertising agencies, in a share swap deal.

The merger, which will leave Publicis with a majority interest in the combined company, follows months of negotiations in which FCA has tried to find an international partner.

FCA, the fourth largest advertising agency in France, which also has an interna-

tional network, fell into the red last year following a fraud perpetrated by an executive who is now in prison.

It held talks with McCann-Erickson, one of the largest agencies within Interpublic, the US marketing group, but eventually decided to merge with Publicis.

Mr Maurice Lévy, chairman of Publicis, said the merger "will reinforce our position in almost every country and will enable us for the first time to have a strong agency in New York".

Publicis and FCA also have

a number of clients in common, including L'Oréal, the French cosmetics company, and Nestlé, the Swiss food group.

The merger comes at a time when the French advertising industry is under pressure because of the economic recession and the destabilising effect of the old socialist government's reform of the media buying system.

Publicis recently warned that its net profits would fall in 1993 following a 7.1 per cent reduction in its interim net profits, to FF60m (\$10.5m).

## Turkey offers Usaş stake for sale

By John Murray Brown in Ankara

THE Turkish government is to sell by local public offering its 30 per cent stake in Usaş, the national airline caterer which is majority owned by Scandinavian Airline System.

The deal is expected to raise TL192bn (\$18m).

The government is selling 6m shares at TL32,000 a share, valuing the company at \$200m. The government is to retain a golden share and the rights to 21 per cent of the net profits. Turkey has so far raised

around TL5,000bn in 1993, against an initial target of TL15,000bn, which many analysts now believe is unrealistic.

The Usaş offer, which will be fully underwritten, will be co-led by Türkiye İş Bankası, Turkey's largest commercial bank, and Global Securities, a local broker.

The offering is being made for three days from October 20. Dealing is expected to start on the Istanbul stock exchange by the end of the month.

However, brokers believe that the offering represents

a significant discount to the market.

The deal puts the company on a price-to-earnings ratio of 5.5 on projected 1993 earnings.

Usaş reported pre-tax profits of TL205bn for 1992. The company reported real sales growth in 1992 of 138 per cent, against an average inflation rate of 60 per cent.

SAS paid \$14m for a 70 per cent stake in Usaş in 1989, in what was one of the first state sales handled by the Public Participation Administration, the government privatisation agency.

## Lundbergs lifts MoDo voting stake to near 50%

By Christopher Brown-Humes in Stockholm

LUNDBERGS, a Swedish construction and real estate group, has taken effective control of MoDo, the country's third-largest forestry group. It exchanged shares worth SKr1.1bn (\$137.5m) with one of MoDo's main domestic rivals, Svenska Cellulosa Aktiebolaget (SCA).

The agreement increases Lundbergs' voting stake in MoDo to 49 per cent from 26 per cent, and reduces SCA's voting influence from 27 per cent to just 3.5 per cent.

This will reduce the ownership tensions within MoDo created when SCA acquired its stake in December 1990m, for SKr1.4bn.

"The clarification of the ownership picture is positive for MoDo, not least internally," said Mr Bertil Löf, MoDo chief executive.

SCA abandoned its hopes of co-operation with MoDo last year, claiming differences of opinion over strategy. It has effectively been seeking a buyer for its holding since.

It believes that by swapping 3.5m A shares, with 10 votes each, for 5.1m one-vote B shares it has gained a more liquid stake, which will be easier to sell once the forestry industry recovers.

Even though it gained a 30 per cent premium for its stake, it acknowledged yesterday that MoDo's shares needed to rise 40 per cent before it recouped the SKr1.59bn it has invested, both initially and through subscribing to MoDo's current rights issue. The current market value of its stake is SKr1.14bn.

SCA said future investments in Sweden would be centred on value-added products, such as lightweight coated paper. In Europe, meanwhile, it aimed to build up newspaper operations, based on recycled paper, close to big population centres.

The company still has an 11.7 per cent equity stake in MoDo, and retains the right to appoint a board representative through an agreement with Lundbergs.

## Taking Groupe Bull by the horns

Alan Cane and John Ridding profile Jean-Marie Descarpentries

MR JEAN-MARIE Descarpentries' message to his staff after his appointment yesterday as chairman of Groupe Bull was succinct and brutal: "There is not a minute to lose and not a franc to waste."

The combination of Mr Descarpentries' appointment and - subject to European Commission approval - a cash injection of FF77bn (\$12.3bn) is the last throw of the dice for the state-owned computer manufacturer. Bull's position is serious. It is overmanned, its manufacturing costs are too high, its products lack innovation, and its balance sheet has been shaken by FF15bn of losses in the past three years.

Mr Descarpentries knows all this. He was a member of Bull's board between 1986 and 1992, a critical period when customers began to favour computer networks over mainframes and traditional computer companies began to report losses.

But is Mr Descarpentries, 57, the man to administer the medicine Bull needs to effect a recovery? Flamboyant, charismatic and didactic, he cuts a different figure from the cool, analytical Mr Francis Lorentz, Bull chairman until 1992 and the man who devised the basis of the company's recovery strategy. He is also distinct from his immediate predecessor, the affable but determined Mr Bernard Pache.

Mr Descarpentries has a fondness for management philosophies that seem to go down better in the Gallic than the Anglo-Saxon business world. He divides managers into chevaliers (warriors with swords), and Benedictines (withdrawn ascetics). In one of his best known initiatives, 28 senior executives from the packaging company CarnaudMetalbox, whose formation he had overseen, were taken, clad in green jogging suits, into the Jordanian desert for a brainstorming and bonding session.

Such bizarre events detract from the evident respect colleagues have for his busi-



Jean-Marie Descarpentries: 'Not a minute to lose and not a franc to waste'

ness sense. Mr Pierre Bonelli, chief executive of the Anglo-French computing services company, Sama Group, and a close friend of Mr Descarpentries, believes he will be good for Bull. "He is a good leader. His chief strength is in operations and that is what Bull needs most at present," he said.

"Being owned by the government does not make it any easier for Bull to solve its problems. I think the appointment of Jean-Marie is a clear signal that this is going to change. I think he will have more freedom than any Bull manager has had in the past. I hope so - for Bull and for him!" Others, while paying tribute to Mr Descarpentries' strength of purpose, warn of apparent character flaws. One British manager who has worked closely with him said: "He can touch the high spots, but he can fall from grace. He is not all that sensitive in personal relationships and often does not get the best out of people."

"There are contradictions in his person-

ality. One of his strengths is his ability to manage cost. He has a clear view of what must be done and if he has to get rid of people then he gets rid of people."

A graduate of the prestigious Ecole Polytechnique, he began his career at Shell, where he held various engineering and technical posts before becoming commercial director of the petrochemical division.

Between 1969 and 1976, he worked at McKinsey, the management consultancy. He is best known, however, for his work at Carnaud, the French packaging group, where he was managing director between 1981 and 1991. There he oversaw the merger in 1991 with Metal Box of the UK to create CarnaudMetalbox, one of the world's largest packaging groups.

Although the merger was hailed at the time as a model of international co-operation, it quickly encountered problems. Profits fell sharply, and the following year he was quickly replaced by Mr Jürgen Hintz, the current chairman.

Observers say he has already declined the Bull chairmanship once - at the time of Mr Pache's appointment in 1992.

Mr Descarpentries' new role reflects the French government's impatience with Mr Pache's efforts to restore Bull to profitability. Since taking office with the centre-right government in March, Mr Gérard Longuet, the French industry minister, has repeatedly demanded strong measures to stem the company's losses.

The fact that Mr Descarpentries comes from the private sector is also significant. Heads of French public sector companies are usually drawn from the ranks of senior bureaucrats. "Since its nationalisation in 1982, Bull has been too dependent on the state," said Mr Longuet.

He described Bull's new chairman as "a man of industry", citing his record of a tenfold increase in sales during his tenure at CarnaudMetalbox. Bull should now take its management decisions only on the basis of the market, said Mr Longuet.

## Skandia to sell US unit to ITT Hartford Life

By Christopher Brown-Humes

SKANDIA, the Swedish insurance group, is selling its US life insurance unit, American Skandia Life Re, to ITT Hartford Life Insurance, the big US insurance group, for SKr170m (\$21.6m).

The group said the disposal would enable it to concentrate on its fast-growing annuity business in the US, carried out through American Skandia Life Insurance Corp.

Premiums for this business amounted to SKr4.7bn in the

first nine months of 1993, more than double the SKr2.2bn achieved during 1992.

American Skandia Life Re is based in Shelton, Connecticut and has annual gross premiums of around SKr1.5bn. It specialises in risk analysis and financial reinsurance for American life groups.

Skandia said it is committed to US non-life reinsurance within Skandia America Corp, although premiums are being reduced as it concentrates on casualty business.

## Boots and WH Smith to shake up Do It All

By Maggie Urry in London

BOOTS and WH Smith, 50-50 partners in Do It All, yesterday attempted to defuse speculation about the loss-making UK do-it-yourself chain by announcing a development and rationalisation plan.

The plan includes a roll-out of its new project-based trading concept to another 38 stores at a cost of £10m (\$15m), taking the total in the new format to 82 by next autumn.

Other parts of the 223-store chain will be pared back

through the sale or closure of stores which are unprofitable or not amenable to conversion to the new style. Boots said yesterday the action was being taken to make Do It All cash positive in two years' time.

The number of shops to be closed or sold was simply described as "significant".

Sir Malcolm Field, group managing director of Smith, said that, where comparisons were possible, the converted shops were showing sales 10 or 11 per cent ahead of a year ago. Lex, Page 16

## RAND MINES LIMITED

## Audited results of Rand Mines Limited for the year ended 30 September 1993

	30 September 1993	30 September 1992	Change
	Rm	Restated Rm	%
Turnover	1649.5	1620.9	2
Profit before taxation	124.0	221.5	(44)
Attributable to shareholders in Rand Mines Limited*	80.9	157.2	(49)
Extraordinary income/(charges) attributable to shareholder not included above*	22.5	(8.8)	
Earnings per share (cents)*	543	1054	(49)
Ordinary dividends per share (cents)	230	315	
Interim	100	100	
Final	130	215	
Dividend cover (times)	2.4	3.3	
	30 September 1993	30 September 1992	
		Restated	
Total assets (Rm)	2 523.3	2 493.5	
Net asset value per share (cents)	3 284	3 193	
Total liabilities to equity (%)	221	227	
Debt to equity (%)	162	159	
Current ratio	0.8	1.0	
Interest cover (times)	1.4	2.2	

Note\* As a result of the restructuring of the Rand Mines group with effect from 1 October 1992, the actual results for 1992 are not comparable with those achieved in the period under review. A restated balance sheet and income statement have been prepared reflecting the 1992 results as if the restructuring had occurred on 1 October 1991.

Export volumes and local sales to Eskom increased by 6% and 1% respectively.

Attributable earnings declined by 49% as a result of substantially lower operating margins, a higher tax charge and lower international steam coal prices.

Interest paid and income from investments declined substantially.

The Dividend Declaration as advertised today in this newspaper

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Members of the Board of Directors

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Floating rate notes due 1999  
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Agent: Morgan Guaranty Trust Company  
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Floating rate subordinated notes due July 1997  
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## GROUPE SUEZ REPORTS INTERIM 1993 RESULTS

Meeting on October 12, 1993 under the chairmanship of Mr. Gérard Worms, the Board of Directors of Compagnie de Suez approved the consolidated financial statements for the six months ended June 30, 1993.

## A turnaround in Group earnings

Consolidated net income rose to FRF 516 million in the first half of 1993, led by growth in operating income.

(FRF millions)	June 30, 1993	Dec 31, 1992	June 30, 1992
Operating income	1,784	(610)	1,323
Net non-operating income	347	1,642	947
Income of companies accounted for by the equity method	461	250	589
Net income (loss) before minority interests	1,652	(201)	1,837
Net income (loss) (Suez share)	516	(1,869)	528

## Higher income from all businesses. Continued negative impact of real estate.

All of the Group's major businesses improved their income contribution from year-end 1992 figures. While lower than at June 30, 1992, the costs of provisions and of carrying loans to the real estate industry remained high. The other banking activities enjoyed satisfactory growth over the period.

Second-half 1993 results should be affected favorably by asset disposals currently completed or underway, but unfavorably by the lingering recession in the French property market and declining income from a number of equity investments.

## Sustained refocusing

Groupe Suez pursued its strategy of divesting non-strategic assets, with disposals totaling FRF 8 billion over the past twelve months.

The Board was informed by Patrick Ponsolle that in agreement with Gérard Worms, he would resign as Chief Executive Officer and member of the Board as of December 31, 1993. The Board commended Mr. Ponsolle for his exceptional contribution to the Group's development since 1983. It also expressed its appreciation for his effectiveness in leading the Group's refocusing and turnaround along side the Chairman in recent years.

At Mr. Worms' motion, the Board unanimously approved, less one abstention, the letter of agreement with UAP. The terms of the agreement were described in a joint press release published by the two Groups.

October 12, 1993

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Payment Date	Rate %	Payment Date	Rate %
Series A: 30 October-29 November 1993	6.25%	Series E: 13th October-30th November 1993	6.25%
Series B: 30 October-29 November 1993	6.25%	Series F: 13th October-30th November 1993	6.25%
Series C: 30 October-29 November 1993	6.25%	Series G: 13th October-30th November 1993	6.25%

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## Merck beats expectations with earnings of \$705.7m

By Karen Zagor in New York

SHARES in Merck gained ground yesterday morning after the biggest US drugs company posted slightly better-than-expected third-quarter profits.

During the quarter, Merck's earnings rose to \$705.7m, or 62 cents a share, compared with \$634.8m, or 55 cents, a year earlier. Most analysts had expected profits of 61 cents a share in the latest quarter. Sales advanced 3 per cent to \$2.54bn from \$2.46bn.

On Wall Street, the results helped lift Merck's shares by \$1 to \$32 1/2 at mid-session.

Merck attributed its improved earnings performance to cost control measures, improved productivity, a better product mix and strong

unit volume gains. It said its results also benefited from restructuring and a lower tax rate.

For the first nine months, net income was \$1.49bn, or \$1.31. A year earlier, the company earned \$1.38bn, or \$1.19. Merck's 1993 results were muted by restructuring charges in the second quarter. In the same period of 1992, results included charges of \$482.4m for accounting changes.

Stripping out restructuring charges in 1993 and the 1992 accounting changes, Merck said its net income rose 10 per cent to \$2.01bn, or \$1.77 in the first nine months of 1993. Sales grew to \$7.5bn from \$7.06bn.

The company said that sales growth was held back by the sale of its Calgon Water Management business in the second quarter and by the

impact of a strong dollar.

In the human and animal health segment, unit sales of its high blood pressure treatment Vasotec, anti-ulcer drugs Pepcid and Prilosec and the anti-cholesterol drug Zocor were strong. The company's Proscar drug, to treat symptomatic benign prostate enlargement, also contributed to the sales gain. However, sales of cholesterol-lowering Mevacor continued to erode in the nine months.

It is planning a \$6bn takeover of Medco Containment Services, the biggest US mail-order drugs distributor. Merck said it intended to finance the acquisition through a combination of equity, cash and debt financing.

The transaction is expected to be completed in the fourth quarter of this year.

## Ex-Apple chief joins Spectrum Information

By Louise Kehoe in San Francisco

MR JOHN Sculley, who resigned last week as chairman of Apple Computer, has joined Spectrum Information Technologies, a small New York company that has developed technology for the transmission of data on cellular telephone networks.

For Mr Sculley, who earlier this year made a bid for the top job at International Business Machines and has been mentioned as a potential candidate to head Kodak, the move seems extraordinary.

However, over the past year he has frequently mentioned his wish to form a high technology start-up company.

Spectrum's computer-to-cellular linking technology is also central to Mr Sculley's interests in developing handheld computer devices such as Apple's Newton.

Mr Sculley will become chairman and chief executive of Spectrum. He was recruited by Mr Peter Caserta, the present chief executive, who will remain at the company as vice chairman and president.

"I am tremendously impressed with Peter Caserta and his vision and leadership in building Spectrum as a foundation for expansive growth," said Mr Sculley.

Spectrum Information Technologies claims to have developed the first commercially successful cellular modem, a device that will link portable computers to cellular telephone networks.

In September the company announced that it had been awarded a patent on technology that simplifies computer-to-cellular connections.

Spectrum has licensed its patented technology to several companies, including AT&T and Rockwell International. These licensing agreements "are indicative of the company's potential," Mr Sculley said.

Spectrum, formed in 1984, has reported losses for the past five years. For fiscal 1993, ending in March, it reported net losses of \$9.9m on revenues of \$98.7m.

## US broadcasting group ahead 27% in third quarter

By Frank McGurty in New York

CAPITAL Cities/ABC, the US broadcasting group, yesterday announced a 27 per cent increase in earnings for the third quarter.

The ABC television network, which returned to profit after posting an operating loss in the 1992 third quarter, was largely responsible for the improvement.

Wall Street reacted enthusiastically to the news. By midday, the share price was up \$19 at \$83 1/2.

The results follow the announcement by CBS last week that its third-quarter earnings were nearly three times greater than its income a year ago.

For Capital Cities/ABC, consolidated net income was \$78.2m, or \$4.75 a share, against \$62.1m, or \$3.74, in the corresponding quarter of 1992. The results reflect a provision for a federal tax

increase enacted this year.

Net revenues climbed to \$1.3bn, a gain of 7 per cent on last year.

Revenues from broadcasting operations were up 11 per cent, with the ABC network benefiting from improved advertising rates and the absence of last year's broadcast of the summer Olympics on a rival network.

Revenue from the group's video operations continued to climb, largely due to the growth of ESPN, the cable station featuring 24-hour sports programming.

Turnover from radio was moderately up, while publishing, excluding the effect of acquisitions, disposals and start-up, showed a 3 per cent sales increase.

For the first nine months, consolidated net income before extraordinary charges was \$300.6m, compared with \$251.4m, before the cumulative effect of accounting changes, in the 1992 period.

## AHP profits rise 4% to \$397.6m

By Karen Zagor

AMERICAN Home Products, the US pharmaceutical company, yesterday posted a 4 per cent gain in third-quarter net income to \$397.6m from \$382.4m on sales up 3 per cent to \$2.17bn from \$2.11bn.

Earnings per share advanced 5 per cent to \$1.28 from \$1.22 in the same period of 1992.

Pharmaceuticals, which account for most of the group's turnover, saw sales slide 1 per cent to \$1.19bn in the quarter.

US pharmaceutical sales advanced only 2 per cent in the latest quarter.

Sales of anti-inflammatory products grew following the introduction of Lodine 400, and helped to offset decreased sales of the group's infant nutritional products.

International pharmaceutical sales fell 5 per cent in the quarter, reflecting unfavourable foreign exchange rates and weaker economies in some of the company's key foreign markets.

Sales of consumer health care products rose 6 per cent to

\$493.4m in the quarter, led by strong growth overseas, while those of medical supplies and diagnostic products also grew 6 per cent to \$216m.

For the first nine months, net income stood at \$1.09bn, or \$3.50 on sales of \$6.19bn. A year earlier, the company reported net income of \$1.1bn, or \$3.49, including charges for accounting changes and for acquired research.

Stripping out these charges from last year's results, net income rose 8 per cent in the first nine months of this year.

## Avon Products steady at \$54m

AVON Products, the US cosmetics, toiletries and jewellery group, is confident that its fourth-quarter and full-year consolidated income and sales from continuing operations will increase, Reuter reports from New York.

In spite of softness in some of its largest markets, mainly because of sluggish economic conditions, the group said its third-quarter results, announced yesterday, were a little better than anticipated. In the third quarter, Avon

reported net income of \$54m on a 2 per cent increase in sales to \$977.1m. However, earnings per share were unchanged at 75 cents, on an increased number of shares. In the same period last year, Avon posted net income of \$53.9m on revenues of \$938.8m.

Third-quarter earnings included a pre-tax gain of \$8m, or 9 cents a share, on the sale of an asset.

Avon said that this year's earnings were also helped by lower annual effective tax rate.

It added that in spite of weakness in the US, it was confident that both fourth-quarter and full-year consolidated sales and income from continuing operations would show an improvement.

Beckman Instruments, the US laboratory systems group, is restructuring and will reduce its worldwide workforce by more than 750 jobs, or about 11 per cent, AP-DJ reports.

It will take a significant charge which will be specified in the fourth quarter of 1993.

## INDEX CONSTITUENTS

LISTS OF the constituent stocks of the FT-SE Actuaries Share Indices series and other FT indices are available at no charge from The Manager, FT Statistics, One Southwark Bridge, London SE1 9HL.

Information regarding the FT-Actuaries World Indices, including details of constituents, is available from:

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International UNP Holdings Ltd., a Canadian company listed on The Toronto Stock Exchange, acquires controlling equity positions in former State-owned enterprises in Poland. Equity subscriptions to date total CDN\$ 23.5 million. By June 1993 the company had taken control of three Polish companies, IBS, BAWAR and UNIPAK. This new capital will further the company's investment programme in Poland.

September 1993

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Photographed by Annie Leibovitz

## INTERNATIONAL COMPANIES AND FINANCE

## NationsBank and Chase reflect improving trend

By Martin Dickson  
in New York

TWO of the largest US banks, Chase Manhattan and NationsBank, yesterday underscored the sector's improving earnings trend by announcing sharply higher operating profits.

Chase Manhattan, one of the leading New York money-centre banks, reported consolidated net income of \$267m, or \$1.26 a share, up 52 per cent from \$176m, or 94 cents, in the same period of last year.

NationsBank, a super-regional bank based in Charlotte, North Carolina, reported net income of \$341m, or \$1.33 a share, compared with \$330m, or \$1.40, in the same period of last year.

However, NationsBank said its performance was masked by one-off items and last year's lower effective tax rate, and that pre-tax operating income before securities gains rose 66 per cent to \$507m from \$324m.

Chase reported net interest revenue of \$928m, up 3 per cent, with a net interest margin of 3.99 per cent, against 4.03 per cent a year ago. Average interest earning assets

were \$92.1bn, up from \$87.5bn, while average loans dropped from \$64.1bn to \$61.7bn.

The provision for credit losses was \$215m, down \$105m on a year ago, while the return on average assets rose to 1.01 per cent from 0.71 per cent, and the return on equity was up from 11.9 per cent to 15.1 per cent. The tier one capital ratio rose to 7.48 per cent from 6.48 per cent.

For the first nine months Chase reported net income of \$638m, or \$3.23 a share, against \$470m, or \$2.59 a share.

NationsBank reported net interest income of \$1.17bn, up from \$1.06bn a year ago. Average loans and leases rose 15 per cent to \$77.8bn.

The net interest yield was 3.83 per cent, down from 4.16 per cent, but the bank said this rose 6 percentage points on last year's figure before the impact of its acquisition of Chicago Research and Trading.

The return on equity was 15.9 per cent, down from 18.97 per cent, while the tier one ratio stood at 7.60, up from 7.54. For the first nine months, net income rose to \$1.13bn, or \$4.42 a share, up from \$911m, or \$3.69 a share.

## The NeXT step in the software battle

Alan Cane on the fighting return of Apple Computer's former head Steven Jobs

BODIES litter the short history of personal computing: Gary Kildall, who wrote the first operating system, Dan Fylstra, publisher of the first electronic spreadsheet and Adam Osborne of the eponymous portable computer, to name but three.

They are wealthy, but no longer seem very influential in deciding the course the industry will take.

Mr Steven Jobs, co-founder of Apple Computer and the creator of today's PC industry, should, by rights, figure among them. Ejected from Apple after a power struggle with former chief executive Mr John Sculley, his new venture, NeXT Computer, led a precarious existence, culminating in the sale earlier this year of the hardware side of the business to Canon of Japan.

Only last month he parted ways acrimoniously with his newly appointed chief operating officer, Mr Peter van Cuylenburg. Harmonious, enduring relationships with colleagues are not Mr Jobs' strong suit. "Rough, tough and intimidating" are some of the kinder adjectives used to describe him.

Yet here he is again. This time trying to convince the corporate world that NeXT's flagship software Nextstep is the answer to its data

processing problems in the face of competition from the industry giants International Business Machines, Microsoft, Novell and Apple.

In his favour is the quality of the software itself - Nextstep has attracted good reviews since its introduction - and his own brooding charisma.

The other side of the "boss from hell", as Fortune magazine has described him, is a smooth tongued charmer who does his homework well.

He is candid about mistakes. The NeXT management failed to realise how quickly prices would fall in the personal computer market.

It also raised too much start-up cash: "That insulated us from the reality of giving our customers what they really wanted."

What every company wants is a way of developing business software in less than the two to three years traditionally demanded by data processing departments.

How does NeXT fit the bill? Shorn of its hardware side, it is a software house. Nextstep was designed to make it easier for companies moving from expensive centralised mainframe to networks of smaller, less costly computers to write software specifically for the business.



Steven Jobs: known as 'rough, tough and intimidating'

It is based on Unix, which many believe will be the operating system of the future, and the technology in Nextstep, object orientation, is undoubtedly one of the keys to the software of the future. It is a technique which enables pieces of software to be re-used rather than starting completely from scratch.

IBM and Apple have a joint venture, Taligent, to develop an object orientation system; Microsoft's equivalent, code-named "Cairo", is at least 18 months away from launch.

Mr Jobs believes NeXT is

five years ahead of the competition.

"We believe we are going to sell 25,000 copies in the second half of this year and 100,000 copies next year. We already have 60,000 copies on order," he says.

"If we can do that, we will be the world's largest commercial supplier of Unix systems. Then we will be poised to do what we want to, which is to provide an alternative to Microsoft. Microsoft will not be able to compete with us technically. It can compete only on size and scale."

Microsoft is the world's largest software company with annual sales of close to \$4bn. NeXT, in its present incarnation, has yet to see a profit.

Yet there are parallels between Mr Jobs' strategy and his earlier experiences with Apple.

The Apple II computer was a hobbyist's toy until accountants realised its value in creating electronic spreadsheets.

The Apple Macintosh, which introduced "mice" and "windows" to the masses, was in danger of becoming a cult machine until its importance as a vehicle for desk top publishing became clear.

"This is how we are selling Nextstep," Jobs says. "In the

same way that the Macintosh was the Trojan Horse of desk top publishing."

He has trenchant views on the major players in the industry, applauding the efforts of Hewlett-Packard, the California-based electronics giant.

"I think it has got its act together better than any of the other large manufacturers," he says.

He takes a gloomy view of his old company: "Apple is in serious trouble. Once it was ahead on vision and technology but Microsoft caught it as if it was frozen."

A predictable view perhaps. HP is NeXT's partner in selling Nextstep while Mr Jobs is still clearly rattled by his expulsion from Apple.

He cannot help but exude *schadenfreude* at the news that Mr Sculley has resigned from the company.

Today, few people think Mr Jobs has much chance of establishing Nextstep as a standard in the industry but his truculent persistence is viewed affectionately by his peers.

One software specialist said: "He is a true pioneer and like all pioneers he takes the arrows in the back."

Where Mr Jobs differs, it seems, is in resolutely refusing to lie down and play dead.

## Trizec halts payments on debt securities

By Bernard Simon in Toronto

TRIZEC, the Calgary-based property developer, has halted all payments on its debt securities pending the outcome of debt-restructuring talks.

As a result, the company will not redeem a \$500m (\$70.1m) debenture which falls due this Thursday.

Under proposals made in early August, Trizec plans to issue a combination of new equity and debt securities to holders of C\$1.1bn (US\$825m) of senior debentures and C\$295m of junior debt. Preferred shareholders have also been asked to convert their holdings into common shares.

Trizec said yesterday it aimed to release details of its final plan by mid-November.

An Alberta court last week convened meetings of all debt and equity holders for December 7 in Calgary to vote on the plan, which would, if approved, be implemented the following day.

Trizec, which is North America's biggest publicly-traded property developer, is controlled by the Bronfman family, whose stake will be substantially diluted by the recapitalisation plan.

## Four banks in final bidding for Gota

By Christopher Brown-Humes  
in Stockholm

THREE Swedish banks and one foreign bank have reached the final round of the bidding for Gota Bank.

Gota, one of two large commercial banks which the state had to take over last year at the height of Sweden's financial crisis, has some SKr60bn (US\$7.62bn) of healthy assets. The government's aim is to finalise the sale before the end of the year.

According to one estimate, Gota could fetch a price of between SKr2.5bn and SKr3bn, given the general recovery that has taken place in the country's banking sector this year.

Skandinaviska Enskilda Banken, Handelsbanken and Nordbanken have confirmed that they are the Swedish banks in the bidding, but the identity of the foreign bank is unclear.

The four banks have been selected from the 12 candidates which submitted preliminary

bids to acquire all or part of Gota Bank last month.

The short-listed contenders have said that they are interested in acquiring the whole bank, excluding the SKr43bn of problem loans which were last month split off into a separate "bad bank" entity, called Retrixa.

Analysts said that a Swedish buyer would be able to derive greater synergy than a foreign bank from a takeover.

"It is difficult to see why a foreign financial institution would be interested in buying a regional bank with a very high cost structure and a client base of small- and medium-sized businesses and private individuals," said one observer. However, Sweden's finance minister Mrs Anne Wibble has made plain that she would welcome a foreign purchaser of a Swedish bank.

A victory for Nordbanken, which has also been taken over by the state, would be controversial because the government has been criticised for capitalising it too generously.

## Bankers Trust issues Portuguese warrants

By Conner Middelmann

BANKERS Trust has launched two new issues of warrants on Portuguese government bonds - the first derivatives on the country's 10-year benchmark bonds.

Portuguese bonds surged after the government last week announced plans to lift the withholding tax for non-resident investors.

This triggered heavy foreign buying, which pushed the 10 per cent 10-year benchmark up nearly four points to 111.70 yesterday.

The yield dropped 59 basis points to 8.99 per cent on an annual basis.

Capitalising on the increase in investor interest in Portugal, Bankers Trust issued 2.5m straight call warrants and 1m down-and-in calls late on Friday.

The latter tranche was increased to 1.5m yesterday in response to strong demand,

said Mr Antonio Beck, a managing director at Bankers Trust.

The nine-month call warrants give holders the right to buy one 10 per cent Portuguese government bond due 2003 at 111.00 on July 15 1994, the warrants' expiry date.

The warrants, issued at \$3.30, closed at \$3.44 bid yesterday. For those investors who feel that the rally has peaked and is poised for a correction, Bankers Trust issued down-and-in calls priced at \$2.45 each.

Under this novel structure, the holder will be paid the difference between 111 and the prevailing market price on July 15 1994 if the price of the bond drops below 109 during the life of the warrant. If the price stays above 109, the holder is merely refunded the full premium.

This tranche, which was privately placed, closed at \$2.69 bid yesterday.

## First Nat'l of Boston sells Turkish stake

By John Murray Brown  
in Ankara

FIRST National Bank of Boston has sold its 25 per cent stake in Turk Boston Bank to Oyak, the Turkish armed forces pension fund.

The deal, the value of which was not disclosed, is believed to have raised around \$7m, and ends the US bank's presence in the Turkish market.

This second recent decision by a US bank to wind down its Turkish operation, a measure of the growing maturity of the domestic banks with which foreigners have to compete. American Express Bank sold its stake in Koc American Bank to the local Koc industrial group earlier this year. The bank has since been renamed Koc Bank.

Bank of Boston's move also

underlines the growing corporate power of Oyak, nominally entrusted to handle assets on behalf of the army.

Oyak has a joint venture with Renault in the country's second largest car assembler, a collaboration with Elf Aquitaine, the French oil company, controls around 10 per cent of the domestic market, and has a brokerage house and an insurance company, and now a bank.

The Turk Bank of Boston sale still has to be approved by the treasury. Turk Bank of Boston announced it is to increase its capital to TL200bn (\$16m). Bank of Boston has also announced a \$50m credit line for its former subsidiary.

The bank has two branches and made profits in 1992 of TL32bn on assets of TL372bn.



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## Retailers count cost of expansion

Emiko Terazono writes on the fall in consumer confidence in Japan

QUEUES of customers waiting to buy cheap office workers' uniform blue suits last month at a discount retailer in Ginza, Tokyo's luxury shopping area, exemplified the problems facing Japan's retail industry, which is experiencing the worst fall in consumer confidence this decade.

A fall in real income and rising fears of redundancy are hitting household spending, and not only are up-market department stores and high-priced merchandise sales suffering but interim results released in the past week show leading supermarket chains are also feeling the pinch.

Most supermarkets blamed the bad summer weather and the economic slump for the fall in profits. However, the supermarkets, which expanded into retailing expensive merchandise during the late 1980s, are also at fault.

As consumer tastes turned to more expensive merchandise during the economic "bubble" of the late 1980s, the supermarket chains, looking for fatter profit margins, expanded their product ranges to items such as clothes, electronic goods and furniture.

This strategy has backfired amid the current economic slump, and earnings for the six months to August at the lead-

ing supermarkets have sagged. The retailers blame sluggish sales of clothing, which became a mainstay product of supermarkets, brought on by the cool summer, but the reality may be that consumers are turning to discount retailers for cheaper household goods and electronic appliances.

Daieli, Ito-Yokado, and Jusco all saw declines in profits, and are pessimistic on prospects for

interim results yesterday, suffered a 71.4 per cent fall in pre-tax profits to ¥630m on sales down 12.2 per cent to ¥128.2bn. Daimaru reported a 23.7 per cent drop in pre-tax profits to ¥1.3bn in spite of sales of securities, on a 6.5 per cent decline in sales to ¥267.8bn.

"Department stores have had the most to lose from the rising popularity of discount retailers," says Mr Paul Heaton of

fall at department stores.

Meanwhile, convenience stores continue to enjoy consumer support. Interim pre-tax profits at Seven-Eleven rose 2.6 per cent to ¥48.2bn on sales up 7.5 per cent to ¥98.8bn.

Convenience stores, which are open 24 hours a day, have managed to cater to special needs of consumers. One-third of sales are made between 9pm and 6am. The sector has managed to cultivate a new group of young urban consumers, who stay out at night, and has maintained high profit margins by offering new products.

Supermarkets are now trying to offer cheaper goods by developing their own brands, while cutting costs by reducing product ranges and spending less on interior design.

Meanwhile, department stores are attempting to compete with the discount retailers by drastically cutting prices. One leading department store recently attracted customers by offering men's silk suits below ¥30,000.

For the second half of the fiscal year, retailers hope a return of consumer confidence will push up sales. However, analysts point out that even if the economy recovers, profit margins may remain thin as consumers will not easily go back to the luxury-loving ways of the late 1980s.

JAPANESE SUPERMARKETS First-half fiscal 1993				
	Sales Yen (bn)	% change	Pre-tax profit Yen (bn)	% change
Daieli	1,011.7	+1.2	10.5	-8.4
Ito-Yokado	760.8	+0.1	41.7	-14.8
Sekiyu	529.3	-3.3	7.5	+0.7
Jusco	499.1	+3.2	11.7	-2.6

the full year. Chujitsuya, a supermarket chain based in the Tokyo area which will be absorbed by Daieli next year, posted an interim pre-tax loss of ¥1.7bn on a 8.7 per cent fall in sales to ¥149.9bn.

Up-market department stores continued to be hit by the increasingly cost-conscious consumer. Mitsukoshi, which has business ties with Harrods, posted its first interim pre-tax loss in nine years.

Sogo, which released its

Baring Securities in Tokyo. Mr Heaton says consumers have discovered that discount retailers are now offering high quality goods at cheap prices, unlike their previous image of vendors of low quality, cheap goods. According to the local Nihon Kogyo Shinbun newspaper, men's clothing discounts are expected to post a 19.9 per cent rise in sales for the current business year, compared with a 6.8 per cent rise at supermarkets and a 7 per cent

## Murdoch spells out plans for succession

MR Rupert Murdoch, chairman and chief executive of News Corporation, said he hoped to remain chief executive of the Australia-based international media company for another 10 years, AP-DJ reports from Melbourne.

He said he expected that one of his children would take over the role of chief executive in 10 years time, while he became non-executive chairman. Mr Murdoch, who is 62, said he felt "very well".

"The ideal is I would continue doing what I am doing for another 10 years and hand over the chief executive role to one of my children and stay as a tolerant, guiding hand, non-executive chairman," Mr Murdoch said in answer to a question about retirement plans.

Asked what would happen if he were to "fall under the proverbial bus" before these succession plans are implemented, Mr Murdoch said his wife, Anna, likely would assume the role of News Corporation chairman.

"I don't see her as being the chief executive of the company," Mr Murdoch said in an interview with the Herald Sun, one of News Corp's newspapers.

## Kia Motors chief urges Samsung to reduce stake

By John Burton in Seoul

KIA MOTORS, South Korea's second-largest car producer, yesterday vowed to fight a possible takeover bid by the Samsung group.

Samsung, one of the country's leading conglomerates, has suddenly emerged as Kia's second largest corporate shareholder after purchasing large blocks of stock since June.

The 9.6 per cent Samsung stake in Kia Motors is a threat to stable management. I urge Samsung to reduce its stake to the level of early June," said Mr Han Seung-jun, president of Kia Motors. Samsung's interest in June was 5.8 per cent.

He added that Kia employees, who form the company's largest shareholder block with 11.4 per cent, may try to buy more stock to resist Samsung.

Samsung has expressed interest in becoming a vehicle manufacturer but claims the stock purchase by its insurance subsidiary was purely a financial investment.

"I don't think the massive buying by a life insurer of our company connotes a normal investment practice as an institutional investor. I can't rule out the possibility that Samsung intends a hostile takeover of Kia Motors by increasing its stake," Mr Han said.

Under current Korean law, Samsung cannot purchase more than 10 per cent of Kia shares on the stock exchange. But legislation pending in the National Assembly would abolish the 10 per cent shareholding limit for institutional investors next year, paving the way for corporate raids.

Kia has urged parliament to

reject the proposed change in shareholding law. Samsung's action has caused widespread concern within the Korean corporate sector, which is characterised by a stable ownership structure and where corporate takeovers are unheard of.

Kia is considered vulnerable to a bid since its ownership is highly fragmented, with no single strong shareholder, but some analysts believe that Ford and Mazda, which own 10 per cent and 8 per cent respectively, and other institutional investors could co-operate in blocking any Samsung bid.

The government also expressed concern yesterday about the Samsung share purchase, with finance ministry officials suggesting the state might intervene by claiming a takeover would violate fair trade and monopoly rules.

## Adsteam puts more properties on sale

ADELAIDE Steamship, the financially-troubled Australian investment company, plans to sell several properties collectively valued at A\$174.5m (US\$115.6m) to reduce debt further, AP-DJ reports from Adelaide.

The company said it would offer 12 retail and commercial

properties owned by several companies within the group through a "sealed bid tender".

The tender is part of a wider asset sale programme that includes a public offer of shares in Australian supermarket retailer Woolworths. Other property sales have raised A\$240m in the past year.

The properties for sale include two David Jones department stores in Sydney and Newcastle, a hotel in Brisbane and a car park and retail complex in Adelaide.

The group is trying to reduce bank debt, which is estimated to have fallen to some A\$1.9bn from A\$7bn in recent years.

## Nissan ratings under review for downgrade

By Michio Nakamoto in Tokyo and Our Financial Staff in London

MOODY'S, the US credit rating agency, is reviewing the ratings of Nissan Motor and its subsidiaries for possible downgrade, affecting about \$9.1bn of securities. The Japanese car company's long-term debt is currently rated A2 and its commercial paper is rated Prime-A.

The announcement came as Nissan reported a 9 per cent fall in domestic sales for September, which was its third straight year-on-year decline, and a 26 per cent decline in exports in the first half of the fiscal year to September. The company's domestic production also declined 13 per cent in the first half, the third straight year-on-year decline, partly due to an increase in overseas production of 23 per cent.

Moody's said that its review would focus on Nissan's ability to respond to the challenges posed by weakening demand in Japan and on the outlook for new model introductions by the company. The review will also examine the impact of the yen's appreciation on profitability in overseas markets and Nissan's efforts to cut costs and improve efficiency.

The credit rating agency is

also looking at Nissan's use of local production facilities to offset pressures of the high yen, the potential implications for the company's Japanese production facilities, the investment required to maintain competitiveness in each of its major markets and Nissan's ability to meet its investment requirements either through internally generated funds or by increasing indebtedness.

Separately, Nissan announced that it is setting up a US logistics company to handle logistics operations for US-made auto parts that are exported to Nissan factories in Japan and Mexico.

The new facility is scheduled to start operations in April to manage the procurement of car parts by Nissan in the US. Nissan hopes the establishment of the logistics centre will cut lead times currently required to deliver US-made parts in half.

The move comes in response to growing US demands that Japanese carmakers buy more US-made car parts and comes as the US and Japan prepare to face each other in negotiations over Japanese imports of US autos and auto parts this week.

Nissan has voluntarily agreed to import \$3.7bn worth of US auto parts in the fiscal year to March 1995.

## Bundaberg bids for two Queensland sugar mills

By Nikk Tait in Sydney

BUNDABERG Sugar Company, part of the UK's Tate & Lyle sugar group, is making a A\$87m (US\$57.6m) cash offer for two sugar mills in north Queensland. The mills, which are independent of each other, are co-operatives and owned by local sugar cane growers.

Bundaberg has proposed to pay just under A\$50m for the Tully Mill and about A\$37m for the South Johnstone Mill. It would then spend a further \$13m on the mills over a two-year period, taking its investment to A\$100m.

However, directors at both mills recommended that the offers be rejected as inadequate, and said they were hiring legal and financial advisers

to provide further appraisals. Mr Dennis Stevens, general manager of the South Johnstone Mill, told local news agencies that the company had advised its 270 shareholders that the offer was too low.

Meanwhile, Tully Sugar Ltd said its board had decided the offer was "significantly inadequate as it values our company at less than \$50m. Our board recommended to shareholders that they take no action," the company added.

The offers are conditional on 90 per cent minimum acceptance and to Foreign Investment Review Board approval. Formal documents, outlining the offer, are expected to be registered in about one week and circulated to shareholders shortly afterwards.

## United Arab Emirates in move to limit bank loans

THE United Arab Emirates has issued rulings limiting the size of loans offered by banks in the UAE in an attempt to cut their exposure to potentially major losses, bankers said, Reuters reports from Dubai.

A circular sent to banks at the weekend by the UAE central bank set a limit on loans equivalent to 7 per cent of a bank's paid-up capital.

The move was part of the central bank's efforts to strengthen the banking structure in the UAE and bring them within international guidelines, the bankers said.

"The central bank wants banks to have tighter policies on their large exposures," one banker said in reference to the circular.

He said the new regulations would come into force at the beginning of 1994 and would

also limit loans to other banks to 30 per cent of a bank's capital. Loans by branches of international banks to their parent banks would be limited to 20 per cent, he said.

"I'm sure most of the banks will be affected. They have some major loans to some big groups," he said.

But he did not expect the rulings to have a negative impact on businesses in the UAE.

"They will just have to distribute their liabilities more evenly among the banks," he said.

The central bank said last week that a study had shown the main cause of financial problems suffered by UAE banks were due to "defaults on big loans granted by banks to a single borrower or to a group of related borrowers."



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## COMPANY NEWS: UK

Growth in all main trading subsidiaries behind advance to £21m  
**Farnell makes \$70m purchase**

By Paul Taylor

FARNELL Electronics, the electronics components manufacturer and distributor, is paying \$69.8m (£46.3m) cash to acquire Multicomponents from ITT, the US conglomerate.

The proposed acquisition, which will make Farnell the second largest distributor by turnover in Europe after Arrow Electronics and place it among the top six in the world, came as the group announced a 37 per cent increase in interim pre-tax profits, excluding exceptional items, to £21.1m.

The acquisition, which is seen as a natural fit and will be financed from bank facilities and Farnell's cash resources, and the better than expected first half results were warmly welcomed in the market and the shares closed 26p higher at 486p.

Analysts believe Farnell's management will move quickly to squeeze costs out of Multicomponents and boost its operating margins significantly.

Farnell acquired the ESD electronics components distribution business from STC for \$51m in 1991 and has since succeeded in boosting its sales and margins considerably despite the recession.

Multicomponents, which has 20 sales offices in 12 European countries as well as 7 in Canada and the US, is one of the leading volume distributors of electronic components in Europe. Its turnover in 1992 was £154m (£139m). However, the ITT unit has



Howard Poulson (left) with Richard Hanwell: deal makes Farnell the second largest distributor by turnover in Europe

been undergoing a restructuring, and operating profits before exceptional items and restructuring costs were £2.2m last year compared with \$900,000 in 1991.

Mr Richard Hanwell, chair-

man, said the acquisition was first mooted by Farnell a year ago. He said it had been under negotiation since April and was completed early yesterday by Mr Howard Poulson, Farnell's new chief executive, and

Mr Henry Elstone, finance director.

He said the acquisition was in line with the group's strategy of expanding its two distribution models, FEC, which distributes about 30,000 components through a catalogue, and ESD, into new geographical markets.

Mr Hanwell said the deal would give Farnell "critical mass" in the European electronics components distribution business and enable it to negotiate more effectively with its suppliers.

Farnell's results for the six months to July 31 reflected a strong performance by all its main trading subsidiaries. Sales rose by 16 per cent to £147m (£126.8m), fuelled by recovery in the UK and continuing expansion in new markets.

Operating profit grew by 33 per cent to £21.1m (£16m) as margins improved to 14.5 per cent (12.6 per cent) reflecting operating efficiencies, particularly in the manufacturing division and ESD.

Strong cash generation helped reduce interest charges and restored the group to a £6.77m net cash position.

The pre-tax line was only slightly below the £21.5m reported last year, struck after the inclusion of a £6.4m one-off gain from the disposal of a non-trading subsidiary.

Earnings, adjusted to exclude the exceptional, increased to 10.5p (7.5p) and the interim dividend is lifted to 3.2p (2.7p).

**Tottenham warning clips share price**

By Paul Taylor

TOTTENHAM Hotspur's shares closed 6p lower at 109p yesterday after the north London football club issued a profit warning following the cost of unexpected repairs to its East Stand.

As a result of year-end provisions totalling about £1.4m the group said pre-tax profits for the year to May 31 would be about £2.3m, somewhat lower than earlier estimates. Twice during the latter summer battle for control of the club between Mr Alan Sugar and Mr Terry Venables, Tottenham was forced to make a statement to the Stock Exchange following unauthorised public statements by Mr Venables about company profits.

In the second statement, issued on July 27, Tottenham said that pre-tax profits for the 10 months to March 31 were approximately £2m.

Yesterday, the company confirmed that subsequent trading had continued to be profitable but added that its full year profits "will be subject to certain year-end provisions for items such as legal expenses and the costs of unexpected major repairs to the East Stand."

Tottenham's results are due to be announced by November 5.

Mr Colin Sandy, finance director, said yesterday that the repairs to the stand involved replacing wooden floorboards which had been treated with a fire-retardant chemical during refurbishment in 1988-89. Subsequently they developed wet and dry rot and have had to be replaced with steel.

**Mt Charlotte benefits from occupancy rate rise**

By Terry Hall in Wellington and Maggie Urry in London

AN IMPROVEMENT in occupancy rates in the UK hotel industry is benefiting Mount Charlotte and could hasten its refit.

This was revealed yesterday by Mr Bob Matthews, chairman of Brerley Investments of New Zealand which owns 70 per cent of Mount Charlotte.

He was speaking after the publication of the group's annual report.

However, a float was not expected until 1995. Mr Robert Peel, Mount Charlotte's chief executive who remained in charge when BIL took the group over in 1990, said his preferred route was a flotation.

He said there had been "a material improvement in London occupancy in the last 12 weeks."

BIL said the rate had risen 11 percentage points over a year ago. Mr Peel said volumes in the provincial hotels were also up this year.

The chain includes 102 hotels plus another 12 managed for other owners, totalling about 14,500 rooms. Of these, 24 hotels and 6,588 rooms were in London making it the largest chain in the capital.

Mr Peel said that in the 1980s London occupancy rates were generally over 80 per cent but had fallen to the low 60s. Now they were in the mid-to-high 70s again. Bookings for next year suggested a considerable improvement for the first half.

Operational gearing in the business meant that a return to earlier occupancy rates could add \$30m to pre-tax profits, he said. Mount Charlotte made a profit of £2.1m after tax in 1992, up from £1.5m in 1991.

Mr Peel added that the market for hotels, which had been difficult and overhung by the number of hotels in the hands of receivers and by the troubles at Queens Moat Houses, was beginning to get easier.

Queens Moat Houses, which is negotiating a refinancing, said yesterday that the upturn in UK occupancy levels it had noted at the annual meeting in August was continuing.

Aside from a flotation of Mount Charlotte, other options include disposals of individual hotels, packages of hotels or a stake in the group. In 1991 BIL sold a 30 per cent holding to two Singaporean government agencies.

Mr Rodney Price, who is to assume direct responsibility for BIL's UK assets when Mr Trevor Beyer retires next March, said a move could not have been contemplated until there was some pick up in the market. Now, he said, "things are on the move, it is all positive for the industry, but the timing is still not right."

Mr Matthews said BIL had received a wide range of approaches. The time seemed to be approaching when more appropriate prices could be achieved, he added.

**Rentokil's majority holder reduces stake to 52.4%**

By David Blackwell

RENTOKIL, the environmental and property services company, said a total of 40m of its shares had yesterday been placed with institutions.

The shares closed 2p down on the day at 209p. Its majority shareholder, Sophus Berendsen, sold 29m shares, reducing its holding from 55.4 per cent to 52.4 per cent, or 510.6m shares. The Danish conglomerate said it would use the proceeds of approximately DKK680m (£53m) to reduce short-term liabilities and strengthen its debt to equity ratio.

Separately, the EG Anker-Petersen Will Trust sold 11m shares, reducing its holding from 4.2 per cent to 3 per cent, or 39.6m shares.

Rentokil said arrangements had been made for both sales to be co-ordinated.

Sophus Berendsen has maintained a majority stake in Rentokil since it went public in 1993. It said yesterday's sale did not mark a change of strategy and gave a firm undertaking not to sell any further shares for at least 12 months.

Rentokil accounts for about 60 per cent of Sophus Berendsen's sales - up 8.5 per cent at DKK4.2bn at its half year. Rentokil's interim pre-tax profits were up 30 per cent at £87.1m.

The Danish group said in August that its full-year result would be significantly influenced by two important investments earlier this year - Rentokil's acquisition of the Securigard Group and the Berendsen Industrial division's acquisition of the Lucas Fluid Power group.

**Five Oaks cuts losses to £851,000**

FIVE OAKS Investments, the property investment and development group, cut pre-tax losses from £4.25m to £851,000 for the year to June 30. Turnover expanded from £3.1m to £3.52m.

Operating profits were £2.15m, compared with £1.82m, while exceptional items were lower at \$987,000 (£3.54m). Comparative figures have been adjusted in accordance with FR5.3.

Losses per share were 1.83p against 9.05p and, in the absence of distributable reserves, there is again no dividend.

Net asset value per share was slightly lower at 32.5p compared with 33.27p.

Mr Trevor Robinson, chairman, said that rental income improved 10 per cent to £3.5m despite a number of disposals during the year and gearing was reduced to 106 per cent.

**F&M may exercise long lease option**

Fortnum & Mason has made proposals to George Weston Holdings, its parent, for the exercise of an option allowing it to acquire the long lease, which has 113 years to run, on its Piccadilly premises for £1.75m.

F&M has been advised that the open market value of the long lease would be £3.73m while that of its existing short lease was £7.25m.

**Panel clears Owners Abroad over Airtours bid irregularity**

By Michael Skapinker, Leisure Industries Correspondent

THE TAKEOVER Panel yesterday comprehensively cleared Owners Abroad, the tour operator, of any suggestion that it misled holders when it fought off a takeover bid by rival Airtours earlier this year.

The panel said it launched an inquiry when Owners warned last July that full-year profits were likely to be half market expectations. Owners said the deterioration was the result of changes in customer

preference, severe price competition and competitors using their own travel agencies to sell holidays.

Following the profits warning, Mr Howard Klein, chairman, and Mr Roger Allard, managing director, announced their resignations.

During the takeover Owners did not make any profits forecast. It did base its defence, however, on its underlying strengths - including a proposed link-up with Thomas Cook and its trading performance.

The panel said it was "satis-

fied that the statements relating to current trading and prospects in the defence documentation were prepared with the required standards of care and accuracy and that the information given by Owners and advisers in that connection was adequately and fairly presented."

"The reasons for the profits warning given by Owners in its interim announcement were factors which either were not apparent or not material during the period of Airtours' offer or had not yet arisen and were not reasonably foreseeable."

**Further initiatives at Lloyd's**

By Richard Lapper

TWO NEW initiatives designed to take advantage of the move by the Lloyd's insurance market to seek corporate investors were announced yesterday.

Johnson Fry, the financial services group, opened an offer for subscription for its Corporate Insurance Recovery Trust, which will invest in the shares of other Lloyd's investment companies. It aims to raise between £15m and £50m. The latest date for applications is November 2, with dealings beginning on November 8. Minimum subscription is £3,000.

Hill Samuel, the merchant bank, is joining forces with

Panmure Gordon, the stockbroker, and RF Kershaw, the members' agent, to raise £50m for the Delta Lloyd's Investment Trust. The portfolio will be managed by Foreign & Colonial Management.

The two deals are the latest in a string of initiatives. Late last week Rafael Zorn Hensley, the stockbroker, announced its intention to raise £30m through Syndicate Capital Trust. John Govey will manage the funds, while a new company, Insurance Analysts, will advise the trust on participation in 17 syndicates.

Peel Hunt, the stockbroker, is sponsoring Corporate Member-ship, a company formed by two

Names, Mr Donald Green and Mr Anthony Hamilton, which aims to raise between £5m and £20m in capital.

Separately, the Hiscox Select Insurance Fund, backed by Roberts & Hiscox, the members' agency, and Charterhouse Tilney, the securities house, last week issued its pathfinder prospectus.

Hiscox aims to raise £28.9m from a placing and will provide £50m of capacity to approximately 70 syndicates.

Decisions to go ahead with all the schemes are dependent on a vote in favour of the corporate capital initiative at tomorrow's extraordinary meeting of Lloyd's.

**Seaford property disposal**

SEAFIELD is disposing of its property interests and re-investing proceeds in its transport, warehousing and distribution businesses.

The Dublin-based group has agreed to sell its Charterhall Properties subsidiary to Able Corporation for up to £17m (£8.7m).

On turnover ahead from £11.4m to £16.9m the company also revealed lower pre-tax losses of £16.6m, compared with £1.46m, for the first six months of 1993.

Losses per share fell from 2.2p to 1.6p.

Directors said that the disposal will remove £14.8m of Charterhall's net borrowing as at September 30 1993.

They pointed out that Charterhall's principal property bankers were now only lending on a day-to-day basis. "We now have the opportunity to see these banks repaid, to release cash from the property interests... and stop further erosion of value from ongoing losses."

**JLI expands with herb purchase**

JLI Group, the food processor, has expanded its ingredients division with the acquisition of Frozen Herbs.

Consideration comprises an initial £1.75m cash and a further profit-related amount, also in cash, to a maximum total of £3m.

Suffolk-based Frozen Herbs supplies leading UK food manufacturers with a range of fresh frozen herbs.

In the 12 months to September 30 1992 it made pre-tax profits, before exceptional management charges, of £459,000 on turnover of £1.84m. Net assets at that date amounted to £193,000.

**Frogmore pays £13m for shopping centre**

Frogmore Estates, the property investor and developer, has acquired a freehold shopping centre in Fleet, Hampshire, for £13.3m from Norwich Union.

The Hart Centre consists of 45 shop units together with two stores let to Boots and WH Smith, and a Waitrose supermarket.

Its contracted rent roll is currently £15.5m with high 90

**Anagen reduces interim deficit to £1.78m**

Anagen, the biotechnology company, reduced pre-tax losses from £2.98m to £1.78m in the six months ended June 30, just two weeks after the company came to market.

Turnover of £1.7m (£218,000) was derived, the company said, mainly from payments by Organon Teknika following the signing of a worldwide marketing agreement for the AN2000 immunosay system.

Operating losses of £1.3m reflected continuing development activities, the company said.

Interest payments of £436,000 (£268,000) were made on short-term debts, since eliminated following the £14.3m flotation proceeds.

Losses per share were cut to 5.8p (9p).

**Correction****LIG results**

London International Group is not announcing full-year results on Thursday, as was suggested in Saturday's edition.

**DIVIDENDS ANNOUNCED**

Company	Current payment	Date of payment	Corres - pendency dividend	Total for year	Total last year
Swire	nil	Dec 7	0.5	nil	0.75
Farnell	3.2	Jan 4	2.8	6.2	6.2
Gartmore	1.7	Dec 20	5.6	8	8
Lowland	0.6	Feb 15	0.75	1.25	1
MY	1				

Dividends shown pence per share. Nil except where otherwise stated. \*Second interim makes 2p to date.

**Mezzanine Capital Corporation Limited**

Notice to the holders of the fully paid Bearer Depositary Receipts ("BDRs") evidencing Participation Shares of US 1 cent each ("Shares") of Mezzanine Capital Corporation Limited (the "Company")

**Notice of Capital Redemption**

NOTICE IS HEREBY GIVEN to the holders of the BDRs (the BDRs are denominated in multiples of units ("Units"). Each Unit currently comprises 9 Shares) that the Company has given notice that it intends to redeem an aggregate of 90,000 Shares at a price of US\$17.05 per Share. This will involve the redemption of one Share in respect of each Unit.

In accordance with Condition 9(5) of the conditions endorsed on the BDRs the number of Shares comprising a Unit will, following the redemption, be adjusted from 9 to 8. The number of Units evidenced by each BDR will remain unchanged.

Payment of the capital redemption will be made, subject to receipt thereof by Chemical Bank (Guernsey) Limited ("the Depositary"), against surrender of Redemption Coupon No. 19 (RED No. 19), at the specified office of the Depositary or of any of the Paying Agents (set out on the reverse of the BDRs and at the foot of this Notice), at any time on or after 20th October, 1993.

Payment will, in each case, be made, subject to any laws and/or regulations applicable thereto, by dollar cheque drawn upon, or at the option of the holder of the relevant Coupon, by transfer to a dollar account maintained by the payee with a Bank in New York City.

Copies of the Company's Annual Report may be obtained from the Depositary and Paying Agents.

BDR holders are advised that as a result of the capital redemption of US\$17.05 per Unit, the net asset value per Unit of the Company will be reduced from US\$153.44 to US\$136.39. BDR holders should note that the price per Unit quoted on the London Stock Exchange will adjust accordingly.


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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGE

## DM eases on repo cut hopes

EUROPEAN currencies traded water yesterday, gaining slightly against a weaker D-Mark as investors looked for signs of a more mellow attitude in the Bundesbank's interest rate policy, writes Peter John.

Economists believe the conditions are now right for a small cut of between 5 and 10 basis points in tomorrow's repo, currently 6.7 per cent. This would raise hopes for cuts in other official rates.

Much will depend on the level of money supply growth. The latest M3 data are due some time this week, possibly tomorrow, and any figure below 7 per cent will be taken as an encouraging sign on inflation and interest rates. The Bundesbank has set a target of 4.5 to 6.5 per cent.

Feelings that lower German rates are back on the agenda combined with the shifting of big D-Mark positions. Many dealers who had bought the German currency last week at the expense of the Belgian and French francs were moving funds into dollars yesterday.

One dealer said: "However limp the recovery in the US it is better than in Europe."

The strength of the dollar was further helped by a cut in

the prime lending rate by Morgan Guaranty, the US bank, from 8 per cent to 5.5 per cent. Many investors felt that other banks will follow the lead and pass on the effect of existing low official rates to customers. The cut was also seen to reflect a return to profitability for hard-pressed US banks.

The dollar reached Y107.70 against the Japanese yen in spite of an increase in the Japanese trade surplus and closed at Y107.45, up from Y107.05 previously. Against the D-Mark, the dollar rose to DM1.6370 from DM1.6145.

It also performed well against sterling, which fell to \$1.4880, down from \$1.5125. The pound was hampered by a disappointing survey on consumer confidence, which added weight to the belief that a further cut in interest rates is necessary and might have to be a full percentage point rather than the half point cut many analysts had expected.

Mainland European currencies appeared slightly stronger against the D-Mark after the strains of last week but the strength was possibly deceptive. Many rose in a technical reaction to the strength of the dollar against the D-Mark rather than genuine buying.

The French franc closed at FF3.5550 against the D-Mark, up from FF3.5410 even though many are looking for a reduction in the 6.75 per cent intervention rate on Thursday. The Belgian franc recovered to BF21.88 against the D-Mark, up from BF21.85, but worries over the economy and impending social pact were not receding.

Some high-yielding currencies did see buying. The Italian Lira, which offers a return on three-month money of around 8.5 per cent, strengthened to L975.8 against the D-Mark from L982.4. The Swedish Krona improved to SKR4.8410 from SKR4.8751.

## EMS EUROPEAN CURRENCY UNIT RATES

Currency	Unit	Rate	% Change	% Spread	Disparity
Bundesbank	DM	1.0000	-	-	-
Deutsche Mark	DM	1.0000	-	-	-
French Franc	FF	6.5596	-0.01	0.00	-0.01
Italian Lira	L	1.936	-0.01	0.00	-0.01
Spanish Peseta	P	166.637	-0.01	0.00	-0.01
Portuguese Escudo	E	200.482	-0.01	0.00	-0.01
Belgian Franc	BF	20.360	-0.01	0.00	-0.01
Dutch Guilder	fl.	1.836	-0.01	0.00	-0.01
Swiss Franc	S	1.736	-0.01	0.00	-0.01
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Continued on next page

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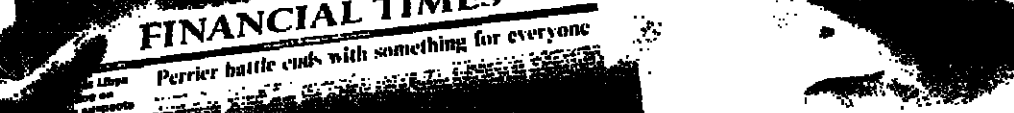
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## AMEX COMPOSITE PRICES

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## AMERICA

## US stocks steady amid profit-taking

## Wall Street

US share prices were little changed in moderate trading yesterday morning amid profit-taking and rising bond yields, writes Patrick Harveron in New York.

At 1pm, the Dow Jones Industrial Average was up 3.07 at 3,632.80. The more broadly based Standard & Poor's 500 was 0.81 lower at 468.98, while the Amex composite was down 0.85 at 482.38, and the Nasdaq composite 2.75 lower at 784.87. Trading volume on the NYSE was 196m shares by 1pm.

After last week's late gains, which were prompted by a sharp decline in bond yields and good news on inflation, stock markets opened with little firm direction yesterday morning. The absence of fresh economic data also contributed to the listless nature of early trading.

Initially, the overnight gains recorded on foreign equities were regarded as a positive factor for market sentiment, but that was subsequently more than offset by early losses on the US bond market, where profit-taking pushed long-dated yields noticeably higher.

Profit-taking also played its part in the stock markets. Last week all the secondary indices reached new record highs, and the Dow climbed to within almost 30 points of its all-time peak. Against that background, traders were not surprised when, at the opening, some investors chose to book some of the profits they had earned last week.

Among individual stocks, banks were in retreat, hit by profit-takers and rising bond yields. JP Morgan (whose Morgan Guaranty banking unit announced a 50 basis point cut in its prime lending rate to 5.5 per cent yesterday) fell 1 1/4 to 74 1/4. Citicorp slumped 2 1/4 to 83 1/4. Chemical gave up 1 1/4 to 94 1/4 and BankAmerica fell 1 1/4 to 94 1/4.

## EUROPE

## Frankfurt starts week with a gain of 1 per cent

FURTHER gains were seen among continental bourses yesterday as the bull run showed no sign of flagging, writes Our Markets Staff.

FRANKFURT closed nearly 1 per cent higher in active trading, although slightly off its intraday high of 2,043. The DAX index ended up 18.29 at 2,033.32 in turnover of DM6bn.

Nikko Europe in its German market comment noted that any consolidation would be muted because of "funds seeking equities given the increasingly lower yields on deposit."

The question is: how much more liquidity is there to come and when will fundamentals catch up with share prices?

In spite of a Bundesbank council meeting due this Thursday many market observers do not expect a further easing in German rates until next month.

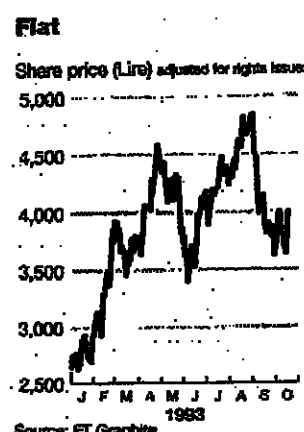
The chemical sector attracted particular interest. Robert Fleming in London has recently put out a buy recommendation on Bayer and Degussa and noted that positive signs for the sector included: accelerated cost cutting and first signs of improving polymer prices as European surplus capacity is syphoned off by recovering demand in the US. Bayer and Degussa added DM2.30 and DM13.20 respectively to DM313.70 and DM408.50.

ZURICH reached a seventh consecutive record high with the SMI index adding 51.0 or 1.9 per cent to 2,683.8, with the advance again based on a firm dollar and hopes of lower interest rates.

Sandor, which reported nine month figures last Thursday, rose SFR115 or 3.2 per cent to SFR3,670 as Mr Marc Freudenthal at Credit Suisse noted that the share had underperformed recently and recommended that investors take advantage of the current low price.

CS Holding added SFR68 to SFR3,350. Merrill Lynch commented recently that it was the most modestly valued of the big three Swiss banks and the furthest from potential peak earnings. This year's windfall profits would bolster its capital base and it was the only one of the three that appeared undervalued in a European context.

PARIS fell back slightly from mid-session highs but the CAC-40 index still managed a day's gain of 5.73 to 2,144.98. There was tremendous activity in BNP stock on its first day of trading after privatisation, and at one stage the



Source: FT Graphix

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shares were suspended briefly after breaking through a 15 per cent fluctuation band. The shares finally closed at FF283.90.

The government also confirmed that Rhône-Poulenc will be the next major privatisation issue, following suggestions last week that Elf-Aquitaine, also confirmed as number three, might move up the list. The two closed respectively up FF2.40 and FF6.50 at FF145.50 and FF434.00.

MILAN followed in the wake of Fiat's strong performance and the Comit index rose 12.29 or 2.1 per cent to 589.88.

Mr Gian Luca Manca of Robert Fleming Securities noted that the market was also supported by expectations of lower interest rates and a waning of recent worries over liquidity.

Heavy foreign and domestic buying took Fiat L172 or 4.5 per cent higher to 14,000 in continued response to the rights issue last Friday.

Italmobiliare, also making a capital call this month, rose L1,595 or 5.1 per cent to

## FT-SE Actuaries Share Indices

		THE EUROPEAN SERIES					
		Open	11.30	12.00	13.00	14.00	15.00
October 18							
Hourly changes							
FT-SE Eurotrack 100		1344.84	1344.31	1345.41	1346.20	1347.28	1348.28
FT-SE Eurotrack 200		1416.30	1416.49	1417.50	1418.74	1417.13	1418.59
		Oct 15					
FT-SE Eurotrack 100		1330.82	1316.57	1317.05	1315.91	1315.91	1315.91
FT-SE Eurotrack 200		1407.10	1391.70	1391.36	1393.81	1393.81	1401.32

Base value 1000 (25/10/93) High/Low: 100 - 1349.12, 200 - 1419.86. Low/high: 100 - 1344.07, 200 - 1405.00.

L32.985.

Montedison climbed L31 to L331 in spite of continuing uncertainty over the rescue plan.

AMSTERDAM remained in positive territory with the heavyweight international stocks all performing well. The CBS Tendency index advanced 1.3 to 133.1.

BRUSSELS played the interest rate theme with the Bel-20 index ending at a new record high, up 10.19 at 1,381.05 in turnover of some FF1.7bn.

VIENNA put on more than 3 per cent helped by the bullish mood elsewhere on the continent. The ATX index closed up

33.73 at 1,077.56, its highest level since early March 1992.

The Nordic markets all showed gains with OSLO's All share index at a new three year high, up 9.75 at 569.69. In STOCKHOLM the Affarsvården general index put on 15.90 to 1,297.80 in spite of a fall in Ericsson, down SKr4 to SKr486 in the B shares.

COPENHAGEN's KFX index broke the 100 barrier, closing up 0.69 at 100.66.

ISTANBUL added to Friday's losses with a fall in the composite index of 258.8 to 14,935.3.

Written and edited by John Pitt and Michael Morgan.

## ASIA PACIFIC

## Nikkei edges lower as region continues to set records

## Tokyo

PROFIT-TAKING and arbitrage selling depressed share prices, and the Nikkei average lost ground in spite of early morning buying by life insurers and public funds, writes Emilio Teraozono in Tokyo.

The 225-issue index ended 102.21 off at 20,723.21, having firmed in the morning, led by continued strength in telecommunications shares, to a day's high of 20,263.53. However, index-linked selling pushed down prices and the average hit the day's low of 20,071.51 just before the close.

Volume came to 223.3m shares, against 338m. Falls led rises by 630 to 340, with 205 issues unchanged. The Topix index of all first section stocks shed 5.32 to 1,649.89, but in London the ISE/Nikkei 50 index put on 2.07 at 1,283.60.

In the morning, financial institutions bought high-tech

nology issues due to the lower yen, while traders sought telecommunications stocks on news of the merger between Bell Atlantic, of the US, and Telecommunications Inc. of the US cable television operator.

However, slow trading in the afternoon prompted profit-taking. Index-linked selling also depressed share prices as stock futures traders, discouraged by a fall in bond prices, liquidated positions.

Construction companies, battered by the recent spate of bribery scandals, fell on small stock. Obayashi weakened Y18 to Y999 and Taisei declined Y14 to Y985.

Mazda Motor dipped Y3 to Y453 on selling by foreign investors. Profit-taking depressed large-capital issues, with Nippon Steel easing Y3 to Y327 and Mitsubishi Heavy Industries Y1 to Y682.

The yen's decline against the dollar supported some export-oriented high-technology

issues. Matsushita Electric Industrial rose Y10 to Y1,500. Airtel jumped Y180 to Y1,780 on favourable earnings reports, while Sony, its parent company, gained Y190 at Y4,800.

Telecom-related shares were higher. Nippon Telegraph and Telephone rose Y4,000 to Y910,000. Fujitsu, the most active issue of the day, firmed Y1 to Y887 and Oki Electric advanced Y8 to Y563. DDI, the long-distance telecom company listed on the second section, closed unchanged at Y6,78m after hitting a record high of Y6,56m during the morning.

In Osaka, the OSSE average slipped 0.12 to 22,945.79 in volume of 18.7m shares.

## Roundup

PACIFIC Rim markets maintained their record-setting ways. In Bombay, brokers continued a strike that has shut down the bourse after a judge delayed settlement of a dispute

over shares, seized by tax authorities investigating a securities scandal.

HONG KONG continued to break new ground, with the Hang Seng index 267.15, or 3.1 per cent, higher to a record 9,031.13, after a day's peak of 9,053.98.

The market breached 8,000 just eight trading sessions ago and is up 63.9 per cent so far in 1993. Turnover was a provisional HK\$9.09m on Friday.

On the futures exchange the October Hang Seng futures contract closed at a strong premium to the market at 9,145, up 325 points, and November and December contracts both finished at 9,150.

Star performers were Jardine Matheson, HK\$4 higher at HK\$73.50, HSBC, up HK\$2.50 at HK\$90, and Wharf Holdings, HK\$2.10 ahead at HK\$27.40.

AUSTRALIA established

another six-year peak in spite of some profit-taking in afternoon trade. The All Ordinaries index added 11.4 at 2,085.5 after an intraday high of 2,086.4.

BHP, 24 stronger at A\$17.68, and News Corp, 16 cents ahead at A\$11.80, both continued to set all-time highs.

NEW ZEALAND registered a new four-year peak, with the strength of foreign markets helping to support prices. The NZSE-40 capital index climbed 14.79 to 2,087.34 in moderate turnover of NZ\$28.48m.

Most leaders posted modest gains, while selected smaller issues were very strong, especially in the publishing sector.

MANILA finished at a record high as buying of PLDT continued to buoy the market and offset profit-taking.

The composite index was up 12.70 to 2,187.95 after touching 2,216.06. PLDT rose 35 pesos to 1,650 pesos.

TAIPEI closed higher for the seventh consecutive day, on a

late wave of buying in financials. The weighted index, little changed for much of the session, ended 30.31 up at 4,081.47 in active trade of T\$24.3bn.

SINGAPORE moved forward but early gains were pared in a technical correction after the market hit an intraday peak of 2,145.68. The Straits Times Industrial index closed 3.19 ahead at 2,116.14.

SEOUL bounced higher at the close on the back of strong foreign and individual buying of small and medium-capitalisation issues which neutralised earlier profit-taking. The composite index ended 8.05 up at 747.19.

BANGKOK'S SET index fell 4.15 to 1,150.80 after reductions in lending and deposit rates by leading banks triggered selling of financial stocks.

KUALA LUMPUR halted an eight-session record-setting streak as profit-taking pulled the composite index 12.93 lower to 914.53.

## Global equity markets step up a gear

MARKETS IN PERSPECTIVE						
	% change in local currency			% change starting 1982	% change in US \$	
	1 Week	4 Weeks	1 Year	Start of 1982	Start of 1983	Start of 1983
Austria	+2.16	+5.42	+30.07	+29.22	+29.18	+29.05
Belgium	+1.58	+4.57	+27.81	+22.31	+16.61	+14.55
Denmark	+1.00	+2.78	+40.00	+31.11	+27.30	+27.16
Finland	+1.02	+12.00	+150.27	+89.83	+73.92	+73.77
France	-0.73	+2.01	+31.70	+18.89	+14.99	+14.99
Germany	+0.71	+6.92	+37.12	+29.97	+30.51	+30.37
Ireland	+0.44	+2.01	+57.82	+41.82	+27.10	+26.97
Italy	-3.08	-3.35	+54.07	+38.70	+28.96	+28.83
Netherlands	+2.00	+6.96	+33.07	+28.12	+28.46	+28.33
Norway	+1.48	+5.36	+59.53	+35.69	+32.39	+32.26
Spain	+2.82	+5.87	+61.14	+41.05	+23.89	+23.76
Sweden	+2.60	+9.93	+91.92	+36.46	+24.51	+24.38
Switzerland	+2.57	+8.60	+39.42	+26.32	+28.89	+28.76
UK	+0.26	+3.42	+25.85	+11.21	+11.21	+11.09
EUROPE	+0.57	+4.42	+34.65	+21.23	+19.30	+19.19
Australia	+2.10	+7.59	+38.81	+26.47	+23.87	+23.75
Hong Kong	+8.61	+17.47	+40.48	+55.27	+55.75	+55.59
Japan	-0.08	+0.54	+24.21	+25.58	+46.61	+46.46
Malaysia	+2.96	+13.60	+84.27	+69.36	+74.35	+74.19
New Zealand	+2.89	+7.03	+59.82	+36.77	+49.79	+49.64
Singapore	+7.96	+12.81	+75.78	+49.01	+55.00	+55.85
Canada	+3.60	+5.73	+21.89	+16.92	+11.81	+11.69
USA	+1.87	+2.12	+14.51	+7.56	+7.57	+7.56
Mexico	+5.70	+4.92	+34.11	+7.17	+7.55	+7.44
South Africa	+1.57	+2.81	+39.54	+25.15	+47.09	+46.93
WORLD INDEX	+1.16	+2.73	+23.77	+17.39	+22.98	+22.38

† Based on October 1981 Index. Copyright, The Financial Times Limited, Golden Square, London, W1P 8DT.

† Based on October 1993. Copyright, The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited.

## By John Pitt

With few exceptions the world's equity markets stepped up a gear last week, leading to a fresh spate of record highs. The FT-Actuaries World Index rose 1.2 per cent, with the best gains coming from the Far East and Latin America.

Nomura's global strategy team, writing at the end of last week, commented that further sharp rises were likely in the South-East Asian markets, "driven by an absence of sellers as much as by the (huge) weight of money still trying to get into the market."

US money has been largely responsible for the bull run in this part of the world (while also contributing to rises elsewhere, particularly in Europe); and yesterday Hong Kong put on a further 3.1 per cent on top of Friday's close.

Morgan Stanley has recently become an aggressive promoter of this market, seeing it also as a gateway to China. Mr David Roche, global strategist, commented last week that

"Hong Kong's expanding prospective price/earnings multiple, which on 1993 earnings is now around 16 times, can be seen as a consequence of the lower political risk."

He added: "Eventually we expect the Hong Kong market to trade at multiples representative of the Asian region as a whole, typically 20 to 25 times prospective 1993 earnings, especially in light of its superior earnings growth prospects for this year and next."

In Europe, Italy and France were exceptions to the upward trend. The Milan equity market was pushed lower ahead of the close of the account last Friday, and more importantly, selling ahead of the Fiat rights issue, which came to the market also on Friday.

Paris spent the week partly in expectation of further interest rate reductions, which failed to materialise. The US global research team has noted that "with downgrading of 1994 GDP forecasts, hopes for recovery are fading and French equities are increasingly dependent on an early cut in rates."



## JF Indonesia Fund Inc.

(Incorporated in the Cayman Islands)

## INTERIM RESULTS TO 30TH JUNE 1993

- Net assets at 30/6/93 **US\$70.9 million**
- Performance in US\$ terms of NAV over first half of 1993 **+ 25.7%**
- Performance in US\$ terms of Ordinary Share Price over first half of 1993 **+ 57.7%**
- Performance in US\$ terms of Warrant Price over first half of 1993 **+ 2,800%**
- Outlook for Indonesian market remains positive

## Extracts from the Manager's Report

"Indonesia emerged as the best performing market in Asia in US\$ terms so far this year, with domestic and institutional investors pushing the Nusantara Index up 52.9%. Against this positive market background, JF Indonesia Fund Inc. performed very well. From January 1st to June 30th, the net asset value of the Fund's shares increased 25.7%, the ordinary shares rose 57.7% and the warrants leapt a remarkable 2,800%."

Strong economic fundamentals are supporting the Indonesian market's gain with the country's external accounts showing a sharp turnaround, fuelled by a 27.7% growth in non-oil exports versus a slowdown in import growth of 4.2% in 1992. The overall trade account recorded a surplus of US\$4.9 billion, double that of the previous year. This resulted in the current account deficit falling to US\$3.8 billion, or 3% of GDP in 1992. This is expected to fall further.

Growth in bank loans should begin to pick up in the second half of 1993 in response to the Ministry of Finance's recent relaxation of regulations on bank capital adequacy ratios.

The outlook for the Indonesian market remains positive with a sharp turn in the country's current account, falling inflation and interest rates, high liquidity and the earnings cycle bottoming."

Jardine Fleming Investment Management Limited  
Investment Manager  
20 September, 1993

JF Indonesia Fund Inc.

Interim Report  
30th June 1993

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Jardine Fleming 47th Floor, Jardine House,  
One Connaught Place, Hong Kong.  
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# BERMUDA

Tuesday October 19 1993

The character of the insurance industry is changing radically: page 5

The island's economic fortunes are beginning to look brighter: page 2

The importance of offshore investment and insurance has been growing following a recent decline in the tourist industry which is suffering from recession in the US. But Richard Lapper finds that this is just one of many developments being witnessed by the island's business community

## Embracing a new realism

FROM his office overlooking the yachts in Hamilton's picturesque harbour, Charles Vaughan-Johnson, who next year takes over as president of Bermuda's biggest bank, unfolds a map of the world showing thick red lines linking the tiny Atlantic island to New York and London.

The map is published by Cable and Wireless, the telecommunications giant, and the lines represent the digital communications "highway" which links the island to the world's financial centres and is a crucial element in the success of Bermuda's offshore investment and insurance business.

"It enables us to do the things which depend on high-speed electronic communication," says Mr Vaughan-Johnson, whose bank already has eight overseas offices and has recently expanded its trust business in East Asia.

Mr Vaughan-Johnson believes that the Cable & Wireless communications lines now equal if not outweigh the importance of the sea and aircraft links on which Bermuda's tourist industry - and economic welfare - has traditionally depended.

In Bermuda's business community he is not alone. Following the election victory earlier this month of the United Bermuda Party (UBP), the immediate future of international business appears assured.

Over the past three years

under the UBP government of John Swann, the prime minister, the offshore sector has grown and now accounts for about 50 per cent of Bermuda's foreign exchange earnings.

To a degree this reflects the decline of the tourist industry, the island's traditional economic mainstay, which has suffered from the recession in the US, the island's main market.

Arrivals fell by about one sixth between 1987 and 1992. The island's big hotels have steadily lost money and local retailers and other trades largely dependent on tourists have shed staff, contributing to a rise in unemployment to about 5 per cent of the workforce.

Partially to compensate for this decline, the government has promoted the offshore investment, trust and insurance industries, partially through more active marketing. In addition, it has started to dismantle elements of the restrictive and protectionist economic model which has guided the island's economic life for much of the past 50 years, making Bermuda more attractive to overseas financial services companies.

The island's two biggest banks - the Bank of Butterfield and Vaughan-Johnson's Bank of Bermuda - which dominate some offshore financial services, have been exposed to much greater competition in the trust and securities business.



John Swann, the prime minister (left) and the House of Assembly (right): the immediate future of international business appears assured

rules to acquire full control of its local subsidiaries.

The easing of rules governing stockbroking operations has allowed the creation of new local securities firms, such as First Bermuda Securities, which are already spearheading some important innovations. First Bermuda, for example, is playing a vital role in a prospective \$131m project to develop a new business hotel on the site of the Bermudiana hotel in Hamilton, the capital

- a development which it hopes will serve as a focus for the international business community.

Partially responding to pressures from the likes of First Bermuda, the banks have moved to streamline the local stockmarket, bringing it into line with international trading centres. Daily trading was introduced for the first time this February and plans to introduce electronic trading are advanced.

The market aims to become a centre for Bermuda's insurance and reinsurance companies and for other companies now based in Hong Kong but which may seek new homes after the Chinese takeover in 1997.

Greater dynamism in the banking sector is also expected. Mr Vaughan-Johnson's appointment as the first non-Bermudian to head up Bank of Bermuda is symbolic of the changing mentality among

Bermuda's business elites. A shift in ownership earlier this year at Bermuda Commercial Bank (BCB), the third largest bank but hitherto the poor relation of the banking community is another indication of change in the industry.

The buyer, John Deuss, a Dutch oil trader and long-time Bermuda resident, acquired a controlling stake from Barclays earlier this year and plans to transform BCB into a niche bank, providing specialised services to corporate and individual clients. But he also wants the BCB to be the first local bank to offer long-term mortgage loans.

The decline in tourism, meanwhile, and the contraction in the economy which has ensued, is leading to change even in more sheltered parts of the island's economy. Local businesses dependent on tourism, such as retailers, have become more adaptable and with full employment no longer guaranteed, Bermuda's tough labour unions are becoming more flexible.

One small but telling example of this new realism is that shopkeepers on Hamilton's Front Street have begun opening in the evenings. It is a step which would not be out of the ordinary in Europe or the US, but for Bermuda such a development would have been unthinkable five years ago.

Further change is on the cards. The growth of the reinsurance market this year will place new demands on local infrastructure and services.

Bermuda is already a leading captive insurance centre and a favoured venue for a number of specialist companies selling such esoteric products as financial reinsurance and high level insurance covering international companies against the cost of legal awards. Companies such as Centre Re, ACE and XL dominate their markets and are among the fastest growing and most profitable companies in the international insurance industry.

This year investors have chosen to pump more than \$4bn into new catastrophe reinsurance companies, with some of the world's leading reinsurers establishing new subsidiaries on the island.

The growth has been fed entirely by developments on international reinsurance markets, where rates have increased steeply following a string of recent hurricanes and other disasters.

Bermuda's loose but reputable financial regulation and the absence of tax on either profits, dividends or income, allow the companies much more room to build up reserves against future losses, than in either the US or Europe.

"The insurance market is so large and substantial, it is bound to lead to further opening up. People will become less insular," says Audette Exel, international manager at the BCB.

Further economic liberalisation is in the pipeline. Last March David Saul, the finance minister, said he favoured ending exchange controls. "To try and shelter behind the 'business as usual' mentality will surely see the rest of the world pass us by and our economy will slide backwards as a result," Mr Saul said recently.

Mr Swann, the prime minister, says he has an "open mind" on the issue of exchange controls - at present Bermudians pay a tax on any capital shipped out of the country. But he says that it may be difficult to enforce rules restricting foreign investors to 40 per cent ownership of non-exempted companies if exchange rules are scrapped. "We would have been like the rest of the Caribbean if we had had an open door policy. We would have had a big private debt problem," he says.

Mr Saul concedes that Bermuda needs some restrictions and protection, but he says the easing of exchange control is in everybody's interest and can be done without adverse fallout. "We just have to understand that exchange control is anachronistic... Something needs to be addressed if we are going to call ourselves truly international."

Local financiers such as Jeffrey Conyers, one of the founders of First Bermuda Securities, agree. "Business locally is more and more realistic. It is part of a maturing process to become truly recognised as an international financial centre."

### ADVERTISEMENT



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Ministry of Finance  
The Bermuda  
Government

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Fax: 809 295 5727

**General Manager**  
The Bermuda  
Monetary  
Authority

P.O. Box HM 2447  
Hamilton HM JX  
Tel: 809 295 5278  
Fax: 809 292 7471

**Chairman**  
International  
Companies Division  
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P.O. Box HM 655  
Hamilton HMCX  
Tel: 809 295 8290  
Fax: 809 292 5779

**Chairman**  
Bermuda International  
Business Association (BIBA)

Suite 203  
48 Pa-la-Ville Road  
Hamilton HM11  
Tel: 809 292 0632  
Fax: 809 292 1797

**President**  
Bermuda Insurance  
Management Association  
(BIMA)

P.O.Box HM 1752  
Hamilton HMGX  
Tel: 809 295 4864



## BERMUDA 2

Richard Lapper finds investment plans are back on the agenda

## Island's fortunes looking up

BARELY a year after Bermuda began to emerge from its worst recession since the 1930s, the island's economic prospects are looking a good deal brighter. An upturn in the fortunes of the tourism industry, unexpectedly rapid growth of the island's offshore insurance and investment business and the re-election in early October of the United Bermuda Party (UBP) have bolstered business confidence and stimulated plans for fresh investment.

Mild growth of at least 1 per cent is expected for 1993/94, following a slump in gross domestic product of more than 6 per cent between 1989 and 1992, when domestic demand fell back to 1987 levels and capital formation retreated to a point not seen since the end of the 1970s. Growth was hit by a

decline in tourism, mainly due to recession in the north and east of the US, which supplies more than 60 per cent of Bermuda's visitors.

The island's problems were compounded by a sharp contraction of money supply by the local monetary authority, following a rapid expansion in credit between 1986 and 1988.

On the employment front, more than 2,500 jobs were lost between 1989 and 1992. Foreign workers - from the Azores and the Caribbean - have borne much of the impact. More than

5,000 work permits have been cancelled since 1989 and the number of foreign workers reduced to less than 5,000.

Even so - by Bermudian standards - unemployment has been high, reaching an estimated 5 per cent by the end of 1991.

But just as the decline was largely a result of Bermuda's dependence on the US economy, so the sudden nature of the recent upturn is largely a result of external factors. Growth has been helped by the steady increase in tourist num-

bers in recent months.

But confidence - and future prospects - have been boosted primarily by a rapid increase in the number of offshore investment and insurance companies, and an unprecedented growth in the reinsurance sector.

Spurred by developments in the international reinsurance markets, where rates have risen sharply following a succession of large losses, nine large reinsurers have established subsidiaries or new ventures on the island within the

past 12 months.

The new investment should help spur recovery in the construction sector, which has suffered in the downturn. Four construction projects worth up to \$80m are all primed to go ahead in the next few weeks, according to finance minister David Saul.

This reflects moves by local developers to build new office accommodation for the increasing numbers of reinsurance companies choosing to locate on the island.

Business interest could also

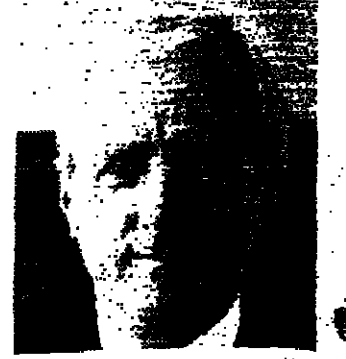
help local hoteliers claw their way back to profit, by providing extra demand for conference and other facilities. The linkages between tourism and finance have been underlined by the Bermudian business hotel redevelopment of the Bermudian hotel complex which, if it goes ahead, will be the biggest in the island's history.

In the meantime, Mr Saul, who has presided over the island's finances during the recession, now has a different category of economic problem to manage.

Mr Saul says that his biggest fear is that the economy could overheat. "We have to watch the boom in construction," he says, hinting at a possible surge in imports if developments are not controlled.

## ■ PROFILE: DAVID SAUL

## Skills well employed



David Saul, minister of finance

DAVID SAUL, Bermuda's minister of finance, is a man of some contradictions.

He is a successful local member of parliament who loves the cut and thrust of political debate, but who also hates to be labelled a typical politician.

He clearly loves his work, yet also says that the only reason he does it is because he has no choice. He is an action man who loves scuba-diving, spear-fishing and kayaking - but who also likes growing roses and collecting stamps.

If Mr Saul is anything, he is certainly not dull. Nor short of an opinion. His fondness for voicing his thoughts, frankly and with little consideration for the subtleties of Bermudian politics and business, have made him something of a maverick. Yet he is in other ways the consummate island insider; after all, he was once a business partner with former Bermuda prime minister Sir Edmund Gibbons.

A first generation Bermudian, the 54-year old Mr Saul is the son of a British soldier who came to Bermuda with the Argyll Regiment and stayed on after he bought himself out of the military.

The colonial influences in Mr Saul's life are strong - he attended university in England and Canada, graduating with a PhD in educational theory and a doctorate in educational psychology. The latter, he says, has been valuable as a financier "because finance, the movement of the markets... is a game that must be studied from a psychological aspect".

If it is true, Mr Saul appears to have used his skills well, steering the Bermudian economy through the toughest recession in living memory with its finances and infrastructure intact.

Mr Saul claims that he got into politics by accident. Having been a civil servant under various governments, he worked for Sir Edmund Gibbons for two years in the early 1980s. In 1984 he joined Fidelity, the US mutual fund group, but when he turned down their offer in 1989 to move to London with the company, Mr Saul found himself pressed into ser-

vice as a member of parliament. After winning his local seat of Devonshire South, he was unexpectedly chosen as finance minister.

His four years at the finance ministry have been marked by a pragmatic stewardship of the government's purse and by his steady, if not always popular, support for a controlled deregulation of Bermuda's financial services industry.

He was one of the prime movers behind breaking the banks' monopoly of the island's trust business, something which did not endear him to the banks. He is also keen to see the banks open up membership of the local stock exchange to other firms.

Bermuda's bankers are not the only ones to have had their feathers ruffled by Mr Saul - other politicians and the local press often find him blunt and over confident to the point of arrogance. "His tone of delivery gets some people's backs up," says one businessman.

It is a view of himself with which he does not necessarily disagree. "I don't like politics with a capital P. I'm probably far too brash. I don't shake hands or kiss babies, and I don't suffer fools gladly."

He is looking forward to another term at the finance ministry but he does not intend to stay on for ever. "I will not die in the job," he says. When he does retire from politics he should have plenty to do. Just reading his list of hobbies - marathon running, scuba diving, kayaking and canoeing, hiking - leaves you short of breath.

Patrick Haverson

Andrew Jack looks at politics in the territory

## Business continues to dominate the ballot box

FORGET about trying to contact the top executives of Bermuda's leading companies on election day. Most will be out at the polling booths, not just marking their ballots but endlessly shaking voters' hands in their role as candidates.

The connection between politics and business was reinforced earlier this month when the United Bermuda Party (UBP) re-established the grip it has held on power since the country became self-governing in 1966. The UBP is ideologically right of centre and unashamedly pro-business. Many of its members of parliament and even ministers are senior business people or partners within the professions.

Potential conflicts of interest abound in Bermuda. If an individual is not wearing two hats, then the chances are that she or he has a sibling or cousin in high places who is. Even the opposition Progressive Labour Party (PLP) is beginning to attract professionals such as accountants and lawyers as candidates, increasing the inter-connections between business and politics.

That does not mean that string-pulling always works. In spite of lobbying efforts by the country's three home-grown banks which have long sup-

ported a strong degree of economic protectionism, a new trust law was introduced in 1991 which has opened up trust work to other local and international companies. Local interests in some areas are beginning to give way to more global ones.

The unanswered question is how far Bermuda could survive a change of government. Talk to most civil servants on the island, and they will insist that they are independent and willing to serve whichever party comes to power. But this system has not yet been tested, and a speech made shortly before the election by one senior PLP official hinted that certain public servants in senior positions might expect to be changed because they had become too closely allied with the UBP.

A change in Bermuda's political position could also pose a challenge for the island's future as an offshore financial centre for international business.

While many executives publicly remain detached or neutral on political matters, privately many express concerns that the PLP's ascendancy would generate a rush to the airport.

The rhetoric in the October election from the UBP made

frequent reference to "the islands to the south", pandering to fears of a repeat of the experience in countries such as the Bahamas, which lost much of its international status after the economic reforms introduced by the Pindling administration in the early 1970s. Ironically, much of it ended up in Bermuda. The UBP reinforced its message with constant references as to whether the PLP was "fit to govern".

These claims of incompetence have been vigorously rejected by the PLP, which says it recognises the contribution of offshore businesses to the economy and would do nothing to harm them. It has, however, said it will place greater emphasis on its planned programme of "Bermudianisation" which would return the country to its own citizens.

Issues of race are frequently discussed. While many white Bermudians and expatriates will insist that racism and discrimination do not exist, few blacks would agree. Few hold senior positions and many parts of the island have concentrations of one ethnic group or another. 90 years after desegregation was formally introduced.

Concerns about race may explain why the PLP boosted



Frederick Wade, opposition leader, the PLP says it will put greater emphasis on "Bermudianisation" Richard Lapper

its share of the popular vote from 37 per cent to 46 per cent, while other minority parties or individuals outside the two-party system were voted out of office.

The PLP, which has remained in permanent opposition, still draws its support predominantly from the black community and blue-collar voters although it has now begun to garner professionals as voters too.

Drugs and education were among the more significant election issues raised by the party. In a country of just 60,000 people, parochial concerns were also important, such as pledges that St George's, at the eastern end of the island, would be the exclusive harbour for a cruise-ship. Many political activists say that Bermudians expect to be personally canvassed by their politicians.

One of the most widely discussed issues in this year's

election was the future of the US naval air force base in the east, which brings substantial revenue to the country and runs the civilian air traffic control and airport maintenance that is essential to Bermuda's infrastructure. Warnings of a US withdrawal have generated frenetic travelling to Washington DC to negotiate better terms.

Bermuda's political structures have a number of peculiar features. The 40-person assembly which meets once a week has some of the smallest constituencies in the world. Most hold less than 2,000 voters and each has two seats - an apparent legacy of the time when landowners had extra votes which were converted after desegregation into a seat for blacks within each district.

Then there is the link with Britain. Removing Bermuda from the sterling area during the 1970s - when the country pegged its currency to the US

dollar - is one of only the most obvious indications that the island looks at least as much to the west as east across the Atlantic towards its old coloniser.

Yet the post of governor remains - appointed by the British and paid for by Bermuda. Lord Waddington, the former British home secretary and leader of the house of Lords, who took over the job in summer last year, may have attempted to be more informal than his predecessors, but he retains control of foreign affairs, internal security, defence and powers of pardon.

He is reluctant to be drawn on the subject of eventual independence, but says: "Those who support the status quo would say Bermuda has it both ways: it is self-governing and has stability ultimately underwritten by Britain."

"It has found it convenient to remain a dependent territory."

# MID OCEAN

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- Commenced Operations, November 1992  
Initial Capital \$359 million
- Initial Public Offering, August 1993  
Increasing Capital by \$325 million
- Capital & Surplus, August 1993  
Excess of \$735 million
- Worldwide Reinsurance Business with Emphasis on Property Catastrophe Reinsurance
- Premiums written first 9 months  
Excess of \$245 million
- Mid Ocean Limited (Holding Company)  
Quoted on NASDAQ (symbol MOCNF)

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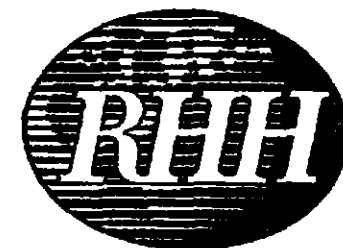
## CORRESPONDENCE

P.O. BOX HM 1066  
HAMILTON HM EX  
BERMUDA  
TEL: (809) 292-1358  
FAX: (809) 292-0876

## LONDON CONTACT OFFICE

ROOM 877  
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مكتبة الجليل



IN BERMUDA, you do not have to look far for evidence that the island's banks are optimistic about their future.

In Hamilton, the capital, the Bank of Butterfield is building 30,000 square feet of office space adjacent to its Front Street headquarters. A few streets away, the Bank of Bermuda is constructing a 75,000 square-foot office complex on Bermudiana Road, and round the corner on Church Street Bermuda Commercial Bank's home is receiving an expensive internal remodelling and facelift.

The banks have good reason to feel confident. Although Bermuda's economy has been in recession for the past three years, the banks have not suffered unduly because their profitability has never been tied to the domestic business cycle.

Instead they have been able to draw on their burgeoning international business to sustain earnings growth.

Global forces are also working in their favour - as international political and economic barriers come down, and corporate and individual tax rates in the industrialised world go up, demand for the kind of offshore financial services Bermuda's banks offer is growing substantially.

The two largest and oldest banks have posted steadily improving earnings in recent years. For the recent fiscal year, which ended on June 30, the Bank of Bermuda reported a 26 per cent increase in profits to \$35.8m, although the results would have been even better but for an \$8.7m provision the bank took to cover possible losses on its domestic loan book. Meanwhile the Bank of Butterfield reported a 12

Patrick Harverson finds international business has sustained earnings growth for the banking sector

## Reason to feel cheerful

per cent increase in net income, to \$30.1m.

Although the island's third bank, the relative newcomer Bermuda Commercial Bank (BCB), has struggled in recent years, its future looks brighter now that the UK banking group Barclays has sold its controlling stake to John Deuss, a Dutch oil trader and long-time Bermuda resident who plans to transform BCB into a niche bank that provides specialised services.

Bermuda is unique among offshore financial centres in having a home-grown banking industry. Foreign banks are not allowed to operate on the island, and in their absence Bermuda's banks have mostly thrived. Yet domestic business represents only a fraction of their earnings.

Instead, the banks earn their money from their international businesses - institutional and individual trust and fund administration, global custody, foreign exchange and treasury, offshore advisory work for corporations and wealthy individuals, private banking for offshore clients - which are run either from Bermuda, or from overseas locations such as London, Hong Kong and the Cayman Islands.

While banks have seen most of their international businesses prosper, one important area - the off-

shore trust business - is giving them cause for concern, not because of weakening demand, but because of growing competition within Bermuda from foreign trust companies.

Since the government - keen to promote the development of the island's financial services industry - pledged to end the banks' monopoly in the offshore trust business, the Bermuda Monetary Authority has granted trust licences to four foreign companies: Coutts and Schroders of the UK; Lombard Odier of Switzerland and Royal Trust of Canada.

The move brought fierce opposition from the banks, which lobbied vigorously against opening up the trust business - going so far as to place full-page advertisements in the local paper outlining their case against deregulation.

Yet the BMA was determined to push ahead. "We saw it as a means of diversifying the country's income," says Malcolm Williams, general manager of the BMA.

Donald Lines, chief executive of the Bank of Bermuda, says they were worried that the newcomers would take existing business away from the banks. "Our big concern was that they would divide, rather than add. Naturally, we were concerned. After all, it is our business. It's taken 50 years to build it."

The banks' concerns, however,

fell on deaf ears. "We asked the banks whether they would like 100 per cent of this table, or 15 per cent of this room," says David Saul, Bermuda's combative minister of finance.

The banks do, if somewhat sheepishly, admit that they have benefited from deregulation. "The ones that are here are doing business

**Domestic business represents only a fraction of earnings for the sector**

with us, and we'll do business with them," says Stephen Kempe, head of international and corporate banking at the Bank of Butterfield.

The banks, however, have another concern about deregulation - that newcomers to the trust business could harm Bermuda's reputation by attracting the wrong kind of business to the island.

"The last thing we want to read in the newspaper is that some gambling organisation out of Las Vegas has formed a trust company in Bermuda," says William Thomson, the Bank of Bermuda's executive vice president. "That would not do us any good, because the kind of people we deal with don't like to associate with that kind of environment."

The BMA insists that it will con-

tinue to scrutinise carefully every trust company that applies to set up shop on the island. "We don't exactly ask what size of socks the top executives are wearing, but we do ask for absolute details of the type of business that is coming in," says Mr Williams.

The opening up of the trust business still has some way to go, although Mr Williams says growth will be well managed. "We have opened the door, but not allowed everybody to come through. Bermuda, being so small, has to be conscious of the effect that any development will have on the infrastructure. We haven't had them piling in. So far so good. Whether we will have to put a lid on, remains to be seen."

The second major development in the banking sector this year was the sale of the Bermuda Commercial Bank.

BCB plays a special role on the island because when it was founded in 1968 it was Bermuda's only black-owned bank, and an important symbol of the island's racial mix. Ownership of the bank, however, has changed hands several times since then, while BCB struggled to find its way. Until this year, the controlling stake was owned by Barclays, which also supplied management under contract.

The Barclays years, however,

were not a great success - the perception on the island was that the UK bank was never really committed to BCB. So when Barclays decided in 1990 to put its stake up for sale, hopes rose that BCB might be revived under new ownership.

It took until May this year, however, before a buyer was found. During that time the bank languished. "It was difficult to market a bank that was for sale," says Audette Exel, the general manager of BCB's international operations.

Although the bank, with a poor-performing domestic retail business and an unsure international image, was not an easy sell, a field of potential purchasers, including several big North American banks, eventually emerged for the BMA and the government to consider. "There were seven serious overtures for the bank," says finance minister Mr Saul.

The final choice of First Curacao International Bank, a tiny operation based in the Dutch Antilles, with only six employees, surprised Bermudians at first. The government, however, was confident that First Curacao and its owner, Mr Deuss, represented the best choice. Mr Saul explains: "When we looked at it, and at what was best for Bermuda, in the end the right decision was made. John Deuss will make this into an endemic Bermuda Bank."

His point is echoed by Ms Exel, who worked closely on the acquisition with Mr Deuss. "He is a brilliant purchaser. First, because he's got enormous resources. Second, because his experience in offshore finance is unparalleled. And third, because he's so committed to Bermuda - he's been here for 20 years."

When Mr Deuss outlined his ambitious plans for BCB, the decision quickly earned approval from the local community which began buying the bank's stock in anticipation of a turnaround in BCB's fortunes.

The 32 per cent controlling stake was sold to Mr Deuss for \$8.51 a share in a deal valued at \$3m, and the stock reached a high this summer of \$14.50.

The new owner's plans are relatively simple. BCB, which has already withdrawn from the unprofitable domestic retail banking business, will work on building a franchise as a niche international bank. It will offer specialised offshore financial services to institutional and individual clients, focusing initially upon fund and trust administration, and on the needs of foreign Bermuda-based companies.

It will not be easy, given the substantial head start enjoyed by Bank of Bermuda and Bank of Butterfield in promoting their expertise in offshore finance, but the new-look BCB believes there is enough room on the island for three globally-minded banks.

"We're smaller and leaner and more internationally focused than the other two, and we're going to be presenting a much more niche image," says Ms Exel. "We're happy to compete with them. There's plenty of business to go round."

### OFFSHORE TRUSTS

## A focus for liberalisation

OFFSHORE trusts play an important role in the Bermudian economy, as a long-standing and significant part of the international business attracted to the country, and most recently as a focal point for the gradual liberalisation of its protectionist policies.

While this year's telephone directory has no entry for Coutts & Co, the banking group, in the centre of Hamilton, the company's building is prominent. John Ritchie, its managing director, began work in early January, days after changes in the law became effective and Coutts was granted permission to establish a presence on the island.

Figures compiled by the Bermuda Monetary Authority, the country's financial regulator, show that last year there were 24 applications for trust company licences. By the end of 1992, 22 companies had been licensed, including 15 existing local companies, six newly-incorporated local companies and one newly incorporated exempted company.

The intense secrecy of trusts - with no public disclosure of any meaningful value - means no reliable figures are available on the number administered from Bermuda. But it runs into several thousand, with most held by the banks.

The recent expansion in trust administrations would not have been possible until very recently. Following an announcement by the finance minister that liberalisation was to permit the entry into the market of new trust companies, and about two years of discussions, a new trust law was passed in 1991.

Until that time, the market was controlled by a few entities - most notably the three local banks, the Bank of Bermuda, the Bank of Butterfield and the Bermuda Commercial Bank. During the previous two decades, the authorities have all but frozen new applications from trust companies.

The government decided to pass the law in spite of some resistance, while granting the banks the concession that their new rivals would not gain deposit-taking powers. In some quarters, the concerns linger on. Cumming Zull of the Bank of Bermuda, says: "I think it will affect us. The sector will be harder to control, leave more room for error, pressure on infrastructure, and we will lose staff."

But Coutts' Mr Ritchie denies that the entry of new trust companies will squeeze existing business. "We're going to be out there promoting Bermuda. With that marketing, the cake will get larger," he says.

Aside from the new entrants, competition is growing between the existing entities involved in administration. All the different service providers argue for the strengths of their own type of expertise in trust work.

Richard Pearman, of Conyers, Dill and Pearman, one of the biggest law firms on the island, says: "We are individuals, not monolithic corporate trustees. We emphasise a continuing personal relationship." Diana Kempe of Appleby,

Spurling and Kempe, the other large Bermudian law firm, says: "Our services are cheaper. We have no acceptance and termination fees, and less sophisticated structures."

Mr Zull says: "We have more formality and structure. The larger banks are too big, and not responsive because it is not their principal business. This is a very personal business. You have to be sensitive to the needs of the client."

The nature of the products is also changing. Traditionally, most trust business has been personal, involving either the passive holding of individuals' assets - such as race horses, oil paintings and property - or active management of their money.

Malcolm Williams, general manager-secretary of the Bermuda Monetary Authority, says interest has been growing recently in offshore trusts throughout the world, driven by concerns such as an increasingly "fortress" Europe, the changes in the former eastern bloc countries, and the Gulf War.

uncertainty over the future of Hong Kong in the hands of China after 1997 has persuaded many residents to place their personal assets offshore in jurisdictions such as Bermuda, and many are redomiciling their companies on the island.

"Business tends to reflect international misfortunes," says Mr Williams. "When there are changes in government or turmoil, it makes people think about protecting their assets."

But Bermuda benefits from other unusual types of trusts. The special purpose trust allows for a beneficiary beyond those conventionally allowed - namely persons or a charity. Purpose trusts can make a company the beneficiary, creating what Donald Malcolm of Conyers calls "a true orphan". These entities classify for relief as foreign sales corporations under US tax rules.

One of the more common uses is for aircraft leasing. By placing the aircraft into such a trust, it can escape the clutches of a liquidator if the lessee collapses, providing reassurance to bankers. This was used recently by GPA, the Irish leasing company which narrowly escaped formal insolvency proceedings.

Mr Zull says pension trusts are also being established in Bermuda, designed by companies for international executives moving between countries, each with different pension requirements.

Meanwhile, there is pressure for the development of asset protection trusts, by which individuals - often professionals likely to face negligence lawsuits - place their assets outside the control of creditors, sometimes in the knowledge that they have been or are about to be sued.

"I'm not entirely happy with those," says Mr Ritchie. "They rely on knowing a great deal. We as a group are very careful. They are not a vehicle we are encouraging."

Andrew Jack

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## BERMUDA 4

## INVESTMENT MANAGEMENT

## Business goes beyond mutual funds

ALTHOUGH more than 300 mutual funds are domiciled in Bermuda, there is more to the island's investment management business than just mutual funds.

A small but growing number of specialised financial firms are running investment portfolios from Bermuda, not only for individual and institutional clients, but also for themselves.

A wide range of firms on the island now offer investment management services to a wide range of clients. Prominent local companies such as Lines Overseas Management and PRP Performa Limited manage money for the island's insurance community and First Bermuda Securities, Bermuda Asset Management and East Investment Management, offer investment management services to local as well as international customers.

Then there are the bigger names with operations in Bermuda. These include Fidelity, the US fund company, Kidder Peabody, the US securities firm, Monroe Trout, the Chicago-based commodities trading house and Schroders, the UK trust group. Finally, a host of individual investment specialists and one-man firms also manage portfolios from the island.

Although no one has yet tried to calculate the size of this burgeoning industry, the evidence suggests that it is expanding fast. Investment managers are coming to Bermuda for several reasons, including the island's accommodating regulatory environment, its first class telecommunications links and its convenient geographical location.

More important, they are taking advantage of a trend that is noticeable in other financial centres - the movement of investment management business and expertise away from the traditional locations, as computer and communications technology allows specialists actively to manage portfolios from almost anywhere in the world where there is an electric wall socket and a telephone plug.

Although the focus of most investment management on Bermuda is directed overseas to the prosperous business of running offshore portfolios for international clients, some firms are aggressively pursuing business right on their own doorstep, namely the island's fast-expanding insurance industry, with its \$22bn worth of assets.

Until recently, Bermuda firms have not been seeking business from the insurers, primarily because they assumed that the big international insurance companies preferred to have their portfolios run from centres such as New York and London, either by their own managers or by huge securities firms.

Many are taking advantage of the movement away from traditional locations as technology allows portfolios to be managed from almost anywhere

Although this assumption still holds in general, a few local firms are beginning to win business from the insurers.

They include Lines Overseas Management (which hopes to have \$120m under its control, some of it from small island-based insurers, by the end of the year), and PRP Performa, whose head, Hugh Barit, has been managing money for captive insurance companies for more than a decade.

Another firm hoping to catch the insurers' attention is Orbis, a former Hong Kong money manager which now commands \$490m in three Bermuda-based equity funds. Alan Gilbertson, a director of the firm, says: "A lot of the insurance companies here are very young, and are building up to a point where they can become more adventurous with their investments. Some of them are beginning to dip their toes into the water of equity investment."

Orbis runs three of the many mutual funds registered in Ber-

muda. Growth in these funds - the bulk of them sold to international trusts, or high-net worth offshore investors in Europe and the East Asia - has been impressive. Two years ago there were 200 funds domiciled on the island. Today there are more than 300.

The growth of Bermuda's mutual fund business, however, continues to be hampered by its virtual exclusion from the huge US market, because of regulatory restrictions.

Ken Morgan of the Bank of Butterfield says the banks and other fund managers are unlikely to pursue opportunities in the United States until the authorities there loosen the regulations. "At some point we might look at it, if we are able to find a way through the regulatory system up there. If there was a straightforward and simple way we'd do it," Mr Morgan says.

As for the UK market - a seemingly natural target for Bermuda fund managers - only a few local firms have obtained the recognition from UK regulators as a special "designated territory" that is required to market their funds in the UK.

Malcolm Williams, general manager of the Bermuda Monetary Authority, says he is surprised that no more than a handful of Bermuda firms have sought UK-designated status. And he is not sure why so little interest has been shown so far. "I suspect it's because most of our collective investment schemes are closed-ended, and in the UK they're open-ended and aimed at the UK public," he says.

The biggest presence in the island's mutual fund business remains Fidelity International, whose president (and Bermuda finance minister) David Saul describes as a "cousin company" to the huge US fund group.

Fidelity International now manages \$10bn, but none of the management is done on Bermuda, where the 33 staff act purely as an administrative team for the company's many non-US operations.

Patrick Harverson

Patrick Harverson follows the rapid developments that have swept the stock market

## Ping-pong balls a thing of the past

FROM ping-pong balls and local stocks to high technology trading, international company listings and multi-million dollar equity issues in five years? Improbable as it sounds, many members of Bermuda's business community believe the local stock exchange can travel this rapid growth path.

For the moment, the Bermuda stock exchange (BSE) remains a tiny market for mostly local company stocks. Only 28 companies are listed on the exchange, with a total market capitalisation of about \$1bn. On average, roughly \$750,000 worth of business is done during the daily hour-long trading session.

But these modest figures belie the extent of the changes that have swept the BSE this past year. It began in November 1992, when the Bermuda Stock Exchange Act incorporated the exchange and gave the Bermuda Monetary Authority (BMA) responsibility for supervision.

That was followed in February of this year by the replacement of the old "ping-pong ball" system whereby the island's three banks used to draw lots using numbered ping-pong balls to determine the order of the weekly trading session - with daily trading and stock prices listed on Reuters screens.

Then, earlier this summer, the three banks which run the exchange - the Bank of Bermuda, the Bank of Butterfield and Bermuda Commercial Bank - began writing new membership rules. The final draft of the new rules, which will allow other firms to participate in the market, have been handed to the BMA, and are scheduled to be approved within a few weeks.

The last steps in the process will be to complete the writing of new rules covering company listings and to finish a review of trading practices. William Dolan, manager of the Bank of Bermuda's private banking department and current chairman of the BSE, says these two steps should be completed by next year.

Although the banks will argue that modernisation of the BSE has been their aim for several years, competition posed by a new over-the-counter (OTC) market that quickly drew business away from the cumbersome BSE

Bermuda Stock Exchange	
BSE Index based at 1,000 Feb 23 1993	
Close as of September 10 1993	1161.46
High 1993	1121.36
Low 1993	844.71
Listed common stocks (excluding mutual funds) as of September 10 1993	Value (Bermudian \$)
Banking/Finance	22.63
Bank of Bermuda	28.13
Bank of Butterfield	13.50
Bermuda Commercial Bank	
Broadcasting	5.00
Bermuda Broadcasting Co	
Consumer Services	3.60
Bermuda Aviation Services	17.25
Bermuda Bakery	14.75
Bermuda Computer Services	9.50
Devonshire Industries	32.00
Kentucky Fried Chicken	8.50
Long Bottom Boats	9.00
Masters	5.00
SAL	4.25
Solar Enterprises	4.50
Stevedoring Services	
Insurance	11.00
Agua Insurance	0.50
Bermuda Fire & Marine Insurance	9.36
BIFM	
Newspaper/printing	9.50
Bermuda Press Holdings	5.50
Bermuda Sun	5.50
Island Press	
UNILEVER	19.88
SELCO	40.00
Bermuda Telephone Co	n.a.
Wellington Water Works	

Source: Bank of Bermuda

proved an important motivating factor.

The new OTC market was the brainchild of Joe Tausig and Jeffrey Conyers, who run the brokerage firm First Bermuda Securities. They set up the OTC market, with the approval of the authorities, in May last year.

"We took that view that Bermudians would trade more if you gave them the opportunity," says Mr Conyers. Previously, all orders had to go through the three banks. The OTC market allowed investors to buy and sell stocks through First Bermuda.

Volume took off once the OTC offer investment management firms on the island started using it, says Mr Tausig. "In the month of April, before Jeff started this, the average volume was less than one million dollars of shares a month. We've had million-dollar days now." He claims the off-exchange business now accounts for more than 50 per cent of the entire Bermuda equity market.

The OTC market, however, suffers in comparison to the BSE in a crucial respect - stamp duty is no longer levied on transactions executed on the BSE, while there is no such exemption for off-exchange trading, much to the frustration of First Bermuda.

As Mr Tausig explains: "When it turned out that stocks traded off the exchange were subject to stamp duty, which is a huge disadvantage for us, we of course said: 'Let's join the exchange.' We've asked to join, but they won't let us join. They're still studying it."

First Bermuda, and other firms such as Lines Overseas Management which trade on the OTC market, argue that the banks are fearful of the competition that non-bank membership would represent.

The banks deny the charge, although the BSE chairman admits that stamp duty remains a "contentious" issue. He says: "We at the exchange felt that we should not exclude the other parties, because they'd view that as the big boys cutting them out. But the government has taken the position that this is the Bermuda Stock Exchange Act, and any transactions that gain the benefit of exemption from stamp duties must be conducted on the exchange."

"So that's forced First Bermuda Securities, etcetera, to come through banks to place

market of more than only local interest - listing rules and new trading practices still have to be drawn up.

Malcolm Williams, general manager of the BMA, says that the BMA and the banks are working hard to put the framework in place that would attract international companies to the BSE. Only four non-Bermuda companies are currently listed.

He says: "Look at the Jardine Mathiesons, the Exels, the Centre Res. We have lot of household names on this island. We have provided them with a very suitable place to operate, and I believe if we provide them with a very suitable stock exchange, then, as they are using Bermuda, they will also use the Bermuda stock exchange."

It would be a natural step for some of the island's big international insurance companies to list on the BSE, says Mr Dolan. "If you look at the Oslo stock market, that's the biggest capital market for the shipping industry. We should focus in on the insurance industry here and actually do the listings and underwritings from Bermuda. ACE, Exel, Mid Ocean Re, Mutual Risk have had IPOs, and they've all been done from New York. I think there's considerable capacity to do those issues from here in Bermuda."

Then there are the hundreds of mutual funds operating out of Bermuda - many of them could list on the exchange. Even more exciting to Bermudians is the possibility that Hong Kong companies, particu-

larly those already incorporated on the island, might use the BSE as some form of safe haven to insure against any problems when China gains political control of the colony in 1997.

Audette Exel, head of Bermuda Commercial Bank's international business, says: "The top 50 per cent of the Hong Kong stock exchange are actually Bermuda companies. Having spent four years in Hong Kong, it's my belief that if they had the opportunity to list here, they would. So in terms of mutual funds and Hong Kong, you have a market that's just waiting to list."

Other visionaries see the BSE playing a role as a base for transactions in an even wider range of international securities - debt as well as equity.

"Geographical location is the key to Bermuda," says finance minister Mr Saul. "This is where all the interest is coming from the Far East. You can work throughout the day there, and then have work done for you at night during the day here. That's where the exchange could be useful."

But this is all heady stuff, and the BSE has to learn to walk before trying to run. The lack of a modern clearing system is one obvious weakness. Without one, international securities firms would not execute trades on the BSE.

It is a chicken-and-egg situation, admits Mr Tausig. "You only place the orders when you think you can get it done. But if you don't get it done, nobody will place the orders."

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INCREASING numbers of London brokers are preparing to make the long flight to Hamilton, Bermuda, this autumn, as the injection of more than \$40m into new catastrophe reinsurance companies adds a new dimension to Bermuda's insurance and reinsurance industry.

Once known as the world's biggest centre for captive companies, the character of Bermuda's market has changed radically since the mid-1980s, with the launch of a series of well-capitalised - and so far profitable - specialised insurance and reinsurance companies.

Bermuda already hosts some of the biggest players in a number of specialised markets. ACE and XL dominate the market for high level liability covers that protect manufacturing companies against large legal awards; the world's biggest oil companies buy coverage from OIL and other Ber-

Richard Lapper looks at the recent swing towards specialisation in the insurance and reinsurance market

## Catastrophe a new dimension

muda-based mutuals; while Centre Re is a leading player in the financial reinsurance area.

Local industry leaders now believe that Bermuda will consolidate its position as a leader in the catastrophe risk area. "In the long haul, this will result in Bermuda becoming a very significant multi-line reinsurance centre," says Walter Scott, president of ACE.

Critics point to the failures of a number of reinsurance companies in the 1970s and early 1980s, implying that the current boom may also be short-lived. Bob Clements, presi-

dent of Marsh & McLennan Inc - the international broker and insurance services company that sponsored the formation of ACE and XL in the mid-1980s, Centre Re in 1988, and Mid Ocean, the biggest of Bermuda's catastrophe reinsurers last October - derides the view.

"It is popular for people who are threatened by Bermuda to say that these enormously well capitalised companies might pack their bags in the night and disappear," says Mr Clements. "But this has nothing to do with logic or fact. It is absolutely absurd."

Comparisons between the new wave of Bermudian reinsurers and those of the 1970s and 1980s are inappropriate, says Mr Clements, because the growth which preceded the earlier failures was driven almost exclusively by tax considerations.

During the early 1980s the US tax authorities began to restrict the tax benefits available to captives. When these moves were reinforced by the courts, many US captive companies tried to preserve the tax advantages by underwriting third party business. But the weakly capitalised companies had insufficient resources to underwrite adequately and were soon overwhelmed by claims. "They became a targetted as 'innocent' capacity," says Mr Clements.

By comparison, the new wave of reinsurers based in Bermuda since the mid-1980s are attracted by a range of other factors.

Many of the new companies hold important positions in niche markets. ACE and XL were formed in the mid-1980s, when capacity in the traditional North American market for liability insurance had virtually dried up.

Marsh & McLennan, the

international insurance broker, and JP Morgan, the merchant bank, sponsored the companies, which received capital from leading US corporations. Now, the two Bermudian companies meet many of the high level liability insurance needs of the pharmaceutical industry, for example.

Together with OIL and TOFS, two companies formed

**The new wave of Bermudian companies all operate in ways that are likely to increase their advantages against their traditional competitors**

by oil majors (again as a result of capacity shortages in traditional markets), ACE and XL also provide up to 50 per cent of the liability insurance needs of oil companies.

The founders of Centre Re, formed in 1988, spotted an opportunity for providing so-called financial reinsurance products, covering against losses that have already occurred but have not been paid or against losses that are expected to occur in the future.

Through one of its subsidiaries, CentreLine, Centre Re covers a number of syndicates at Lloyd's of London in a way that allows it to use its reserves against long-tail claims more effectively.

In a similar way Marsh backed the launch of Mid Ocean in October last year, as capacity for catastrophe reinsurance in the London market shrank after a succession of severe weather losses between 1987 and 1993. Within a year investors - including some of the world's largest reinsurance companies, American International Group, Swiss Re and General Re - have followed suit, forming nine new reinsurance companies.

Bermuda's attractions are likely to prove more durable. Its light and reputable regulation, ideally suited to the needs of insurers and reinsurers underwriting commercial business, is a key factor, especially from the point of view of US companies.

The US system of state regulation - which prescribes policy terms and tightly controls ratings - is designed to protect buyers of home and motor insurance. "We are not talking about looking after the interests of Aunt Millicent. We have

professionals on both sides of the deal," says Mr Clements.

The absence of taxes on either incomes or profits in Bermuda gives Bermudian reinsurers greater flexibility to build up reserves to cover future losses than their competitors in either North America or Europe. Bermuda is a convenient location geographically for internationally reinsurers who must - almost inevitably - transact business with direct insurers in the United States.

The new wave of Bermudian companies all operate in ways that are likely to increase their advantages against their traditional competitors. They tend to deal in high margin business, with relatively few clients frequently on the basis of multi-year contracts. Their costs are low. ACE, for example, has an expense ratio (expenses as a percentage of premiums) of about 16-17 per cent (compared to between 28 and 30 per cent for traditional US insurers). XL, Centre Re and Mid Ocean all enjoy the same kind of cost advantages.

Several factors could limit growth, not least the island's limited size and labour force. Already Bermuda's housing stock is under some strain

with reinsurance chiefs prepared to pay up to \$20,000 a month for executive apartments.

Stephen Gluckstern, founder and chairman of Centre Re, predicts that although Bermuda will remain an important centre for niche business, it will be more difficult for it to grow as a fully-fledged "full service" reinsurance centre, a view which explains Centre Re's recent decision to base its ZRC reinsurance subsidiary in New York.

ZRC, unlike Centre Re or Centre Cat, will write a full range of reinsurance policies for American cedants, including quota share and proportional business.

"For niche business people will come out of their way to see you. But it must be harder to develop interests of a wider array of broker," says Mr Gluckstern. Mr Gluckstern points to a tax factor which could also come into play. US insurers must pay excise tax of 4 per cent on all reinsurance premiums "exported" out of the United States, a cost which can offset Bermuda's advantages on profits and income tax.

Even so no one should write off Bermuda's prospects for further growth. Brian Hall, of Johnson & Higgins, the international insurance brokers, has been based in Bermuda for nearly 30 years.

"After each development I always felt we had reached a new plateau. I can't expect the growth to continue. But it does."

Insurance company	Company sponsors	Est. capital (\$)	Est. start
Mid Ocean Re	JP Morgan, Marsh & McLennan	738m	Nov 1992
Renaissance Re	USF & G, Warburg, General Electric	140m	Jun 1993
IPC Re	AG	300m	Jun 1993
Centre Cat	Centre Re, Morgan Stanley	400m	Sep 1993
Tempest Re	General Re	482m	Sep 1993
Global Capital Re	Goldman Sachs, Johnson & Higgins	450m	Oct 1993
Compass Re	Underwriters Re	300m	4th qtr '93
LaSalle Re	SCOR	500m	4th qtr '93
Partner Re	Aon, CNA Financial, Corporate Prits	750m	4th qtr '93
Insurance Partners	Swiss Reinsurance, John Head	400m	4th qtr '93
	Centre Re		

Source: Bank of Bermuda

## Pace quickens

"IT IS happening faster than we thought it would," says Michael Butt, chief executive of Mid Ocean Re, the first of a new generation of catastrophe reinsurance companies formed in Bermuda during the past 12 months.

Mid Ocean underwrote gross premium income of \$24m in its first nine months of business, recording profits of \$4.4m. On a few contracts it is acting as a lead rather than simply offering a following market. And in the run-up to the January renewal season when many of the biggest reinsurance contracts are renegotiated, the company is building up its underwriting team.

Jeremy Hindle joined from Swiss Re as deputy to Henry Keeling, a former Lloyd's underwriter, in October. Investors have clearly been impressed with progress to date, with the company's capital base doubling to \$738m, following a successful initial public offer in the summer.

And so are Mid Ocean's competitors, judging by the speed at which the world's leading reinsurers are following Mid Ocean's example.

At least nine companies have been formed since the middle of this year, increasing the capital base of the catastrophe reinsurance market to more than \$4bn.

Among the big names investing in the island are General Re, the United States' biggest reinsurer, SCOR, France's leading reinsurer, and Swiss Re, the second biggest reinsurance company in the world, which has joined forces with Manhattan investor, John Head.

The American International Group, the world's best capitalised company, which first established subsidiaries in Bermuda in 1963, has set up a new catastrophe reinsurer, IPC Reinsurance, capitalised at \$300m.

Indeed, among established players only Munich Re, the

biggest reinsurer in the world, and Lloyd's of London are absent, although many of the new Bermudian companies intend to underwrite shares of catastrophe business originally led in London.

Overall net assets held by Bermudian insurance and reinsurance companies now amount to more than \$4bn. Jeffrey Conner, of First Bermuda Securities, a local securities house describes the developments as "absolutely astonishing". David Saul, finance minister, says the companies represent a "seal of approval" for Bermuda's business sector.

Critics suggest that capital has been formed at such a rapid pace that it could lead to a resumption of the rate competition, undermining the "hard market" - high rates and tight conditions - that made catastrophe reinsurance so attractive to investors in the first place.

Mr Butt - and most of the rest of his colleagues in the local market - disagree. For a start underlying rates are much higher.

According to Charles Skeay, an underwriter who works with Mid Ocean in its London office, "the rating basis has changed totally" in recent years with rates for all major catastrophe risks at higher levels than at any time during the past 30 years.

Capital is being deployed more cautiously. Mid Ocean is underwriting on a much higher solvency margin - with premium income equal to only about a third of the company's capital base.

Mr Butt suggests that by introducing tougher conditions on their proportional policies, European reinsurers are pressing many of their customers into the catastrophe reinsurance market, fuelling demand and sustaining prices.

Richard Lapper



Michael Butt (left) and Henry Keeling (right)

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## BERMUDA 6

Richard Lapper finds tourism emerging from its recent decline

## Cruises lead a recovery

NEWS of a prospective \$131m project to redevelop the Bermudian hotel has bolstered confidence in the island's tourism industry, which is slowly beginning to recover following five years of worrying decline.

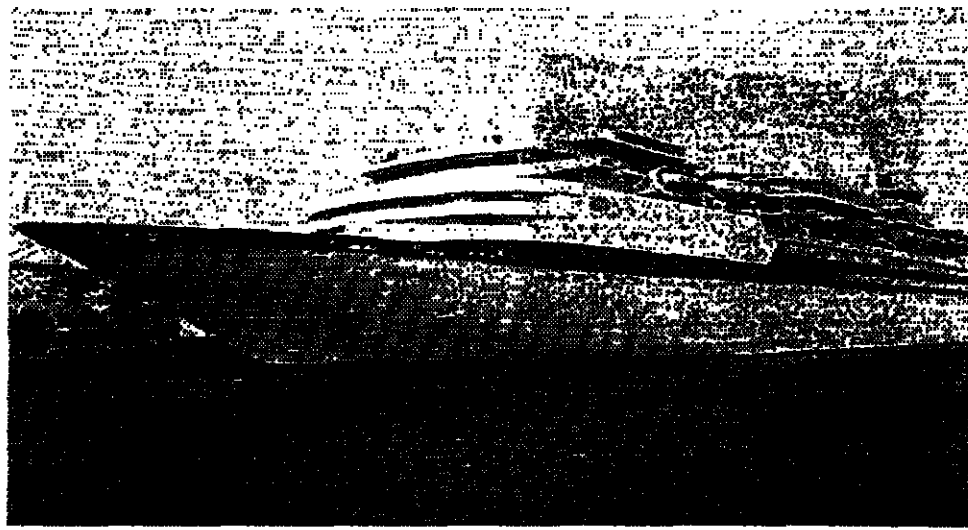
Last month, Bermuda Financial Centre (BFC), a group of mainly local Bermudian investors, announced plans to buy the Bermudian, a vast pink hulk overlooking Hamilton harbour, moth-balled by its owners, Trust House Forte, the UK hotel group, since 1988. BFC aims to demolish the hotel and convert it into a new 330-room "business hotel" and office complex, providing living and working accommodation for businessmen visiting the island's international financial centre.

One million dollars has been invested so far and BFC aims to raise \$45m in equity capital. It will then borrow a further \$85m to fund Bermuda's biggest-ever construction project. First Bermuda Securities, a local securities firm, is orchestrating the development together with Canada's Gordon Capital. One of the firm's founders, Jeffrey Conyers, says the new hotel will provide a "focus" for the island's international financial centre, confirming Bermuda's reputation as a place "where serious business is being done".

The group plans to convert at least a third of the rooms into executive suites and will also build a conference centre. The buoyancy of Bermuda's offshore financial business, especially the surge of investment in insurance, is propelling recovery among hoteliers in other ways as well.

Professor Brian Archer, a Manchester-based academic who has surveyed the economic impact of international business, says that the 7,000 business travellers who came to Bermuda in 1991 were accompanied by "approximately 7,000 friends and relatives". Professor Archer says that the expenditure of these visitors was "considerable", amounting to a total of \$8.4m during 1991, or just over \$1,000 per couple.

A number of hotels are earning an increasing proportion of



The 'Song of America': cruise ship operators have increased capacity

their revenues from business travellers. The Southampton Princess, one of the island's biggest hotels, is particularly well known as a conference centre, for example. Government officials estimate that more than one in 10 "tourist arrivals" are, in fact, businessmen who choose not to declare the real purpose of their visit on immigration forms.

Meanwhile, overall tourist numbers have begun to recover over the past 12 months, halting a steady decline which has plunged its biggest hotels into the red.

After climbing to an all-time high of 631,314 in 1987, the number of annual visitors fell steadily during the late 1980s to reach 547,490 in 1990, 514,329 in 1991 and 506,237 in 1992, the lowest levels for nearly 20 years. Bermuda's eight biggest hotels between them reported a total loss of about \$17m in the 12 months to September 1992. Always an expensive place to visit, Bermuda was hard hit by the downturn in the US economy - especially severe in the north-east and mid-Atlantic states, from where nearly 60 per cent of the island's visitors come.

The Gulf War made many would-be visitors jittery about international flights, even though Bermuda lies only 568 miles east of North Carolina. Bermuda has not benefited from the fierce price competition among US airlines which

has made many domestic destinations, especially Florida and California, more attractive. Gary Phillips, director of tourism, says that demand in the US has begun to pick up this year.

The recovery is being led by the cruise ship sector, with numbers up by 14 per cent. Royal Caribbean Cruise Lines and Norwegian Cruise Lines have both deployed new, larger ships this year to sail on their regular weekly cruises from US east coast ports to Bermuda.

RCCL's "Song of America" has increased berth numbers by 250 to 1,330, while NCL's "Dreamward" has 1,400 berths, nearly double the number available on "Westward", the ship it replaces. Both these lines, as well as US-based Celebrity Cruises, are reported to be experiencing buoyant levels of demand.

The hotels, meanwhile, have also seen visitor numbers increase over the past few months. John Harvey, director of the Bermuda Hotels Association, says occupancy levels have begun to recover. He expects the biggest eight hotels to break even in when they report results for the 12 months to September 1993 in the next few weeks.

The main obstacle to overcome is the view that Bermuda "gets very cold during these months", says Mr Phillips. About half of Bermuda's hotels have offered to reduce room

rates by 20 per cent on each day that temperatures fall below 68 degrees.

Visitors taking advantage of the scheme in the first three months of the year obtained discounted rates for about 20 days.

Local shopkeepers joined in the scheme, by offering price reductions on the cooler days, while some hoteliers offered other discounts, such as free accommodation to children under 12.

Bermuda is also attempting to promote itself as a "long haul" destination for European visitors. Here, however, the island is handicapped by inadequate air-connections, especially with potentially lucrative German and Scandinavian markets.

Although British Airways reports a high level of occupancy for its regular direct flights from Heathrow, the airline has no plans to increase frequency from the current levels of three times a week between May and October and twice a week for the rest of the year. As a result, travellers face a 12 hour journey via New York.

So far, neither the government nor local hotel operators have enjoyed any success in their efforts to attract other airlines to fly direct routes. Nor have they been prepared to entice charter operators to fly to the island by sharing the cost of any losses.

LIVING and working in Bermuda is rather the reverse of the mythical ship-swallowing Bermuda triangle to which the island gives its name. Those who enter it do not sink without trace; instead they continually bump into one another.

People talk of "island fever" - a psychological, claustrophobia-like affliction of those who stay in the country for extended periods. It is, after all, just 21 miles long and a maximum of one mile wide, with less than 60,000 inhabitants.

"You see the same people all the time," says one resident. "It can get very tiring. It's like being part of a family, or on a boat in the middle of the water. You've got to be part of the crew."

"You can hardly go to the toilet without someone knowing it, and most know how long you spent there too," says Malcolm Williams, general manager-secretary of the Bermuda Monetary Authority. "But it is not a bad place to be," he adds, sweeping his hand to indicate the view of boats in the harbour behind the exclusive Yacht Club.

For many expatriates, the situation may be relieved by business travel. For others, trips to Boston, New York and North Carolina to shop are common. Michael Blakely, managing director of World-Wide Shipping Managers, says: "As long as you've got time away to look forward to, it's OK."

In spite of the close proximity of its residents, Bermuda remains racially segregated, with distinct areas dominated by blacks and others by whites. People in certain social circles may bump into each other all the time; but those in different groups rarely meet.

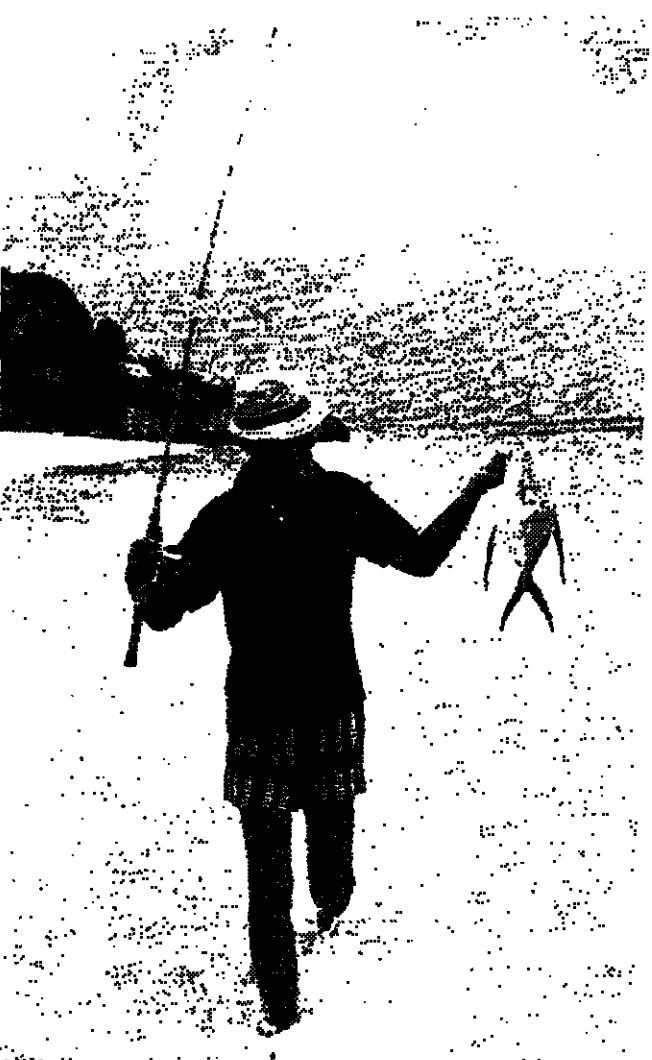
The island has a good number of local attractions, including an arts festival each winter, several cinemas and a strong tradition of amateur dramatics. "You could do karate in Czech here if you wanted," says one resident. There is a zoo, aquarium and botanical gardens, as well as several museums.

Much of this is sponsored by local business, perhaps often through a combination of philanthropy and fear that without voluntary contributions, the government may consider raising the necessary money through compulsory means.

Ray Madeiros of accountants Cooper & Lines says: "We do

## LIVING AND WORKING

## More than a beach party



'Because it's Bermuda, people think that you sit on the beach all day'

not live in a cultural vacuum here. We can buy daily newspapers from overseas. We never feel totally isolated."

Bermuda's beaches offer potential for sun-bathers and swimmers. Many residents have boats and can sail to escape the crowded conditions onshore. Inland are eight golf courses and numerous tennis courts.

The country's climate appears impressive on paper. But it becomes extremely humid in late summer and intense, short bursts of rain

are not uncommon throughout the year. Most of the island is densely populated. Some of the houses may be luxurious, but even these generally have little garden space. And for expatriates coming in, the costs of renting and buying have rocketed.

Coping with work permits can be problematic, with concerns for some as to whether they will be renewed. Even worse, spouses are not entitled to a work permit and are often unable to be employed. Travelling around can also

be frustrating, since the island allows each family to use only a single car. Those coming from many parts of the world find driving on the left or negotiating roundabouts difficult, and they are required to re-take their driving test. A further frustration can be the extremely low speed limit.

Bermudians claim to live in a tax-free existence. In fact, they pay a "hospital levy" as a proportion of payroll expenses, as well as significant property taxes. Employers may also be often paying private medical health cover. These contributions may be relatively low, but the cost of living is also substantially raised through government levies on imports.

Most expatriates seem content with the education system - both public and private - that can take their children as far as university entrance level for north America, although the schools no longer offer A-levels. Equally, the Edward VII hospital is well regarded.

John Ellison of Conyers, Dill and Pearman, one of the country's largest law firms, says: "In this kind of business you have opportunities for travel, talking to people all over the world: with the advantage that you don't have to wear silly suits, get stuck in traffic for two hours and get mugged on the way home."

Most executives highlight what is referred to as "the usual boring list" to explain the ease of working in the country: an excellent infrastructure, good communications, a variety of courier companies, professional services such as lawyers, accountants and banks and a tightly-knit group of individuals with easy access to one another when decisions need to be made.

But they are sensitive to suggestions that they take too great an advantage of the posting. Michael Drev of Schroders says: "You get a lot of pressure. Because it's Bermuda, people get the idea that you sit on the beach all day with your gin and tonic. It's not like that. I have taken two Saturdays off in the past 10 years."

Michael Blakely adds: "I hardly go to the beach although I have been here three years. Time seems to evaporate. To begin with you think you're on holiday. And other people come here and think that you are. But there are a lot more unpleasant places you could be."

Andrew Jack

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Hadley's more complex and more reliable instrument was further improved upon in 1757 when Capt. Campbell of the Royal Navy increased its scope to 120° - thereby creating the first sextant: the instrument upon which all modern navigation is based.

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# ALUMINIUM

Tuesday October 19 1993

How Western traders support Russia's creaking smelters. Supply and demand PAGE 2

The London alloy trade. Rival materials PAGE 3. Recycling news. Non-steel cars PAGE 4

Amid continuing recession, the industry is trying to adjust to the deluge of metal exported by former Soviet producers notorious for low wages and high pollution levels. Prices have plummeted, thousands of employees have been laid off, and new capacity has been cancelled or mothballed. **KENNETH GOODING** reports

## Russia is in the market

THE WORLD aluminium industry is adjusting painfully to what Mr A Stephens Hutchcraft, president of Kaiser Aluminum of the US, describes as "the new reality".

He says: "The new reality is that Russia and other countries of the Commonwealth of Independent States are now part of the world supply/demand structure and will be an integral part of our industry. If we ignore that fact, we do so at our peril."

The industry is floundering because, in the words of Mr Paul O'Neill, chairman of the Aluminum Company of America, the world's biggest producer, governments have failed to find "a mechanism to deal with the economic consequences of the dissolution of the former Soviet Union."

Turnover created by the collapse of the rusting iron curtain has helped to drive down aluminium prices to their lowest level in real terms so that virtually every smelter in the west is not even covering its cash costs of production. Smelters are being shut, thousands of employees laid off and virtually all plans for new smelters have been either abandoned or shelved.

The stresses are most severe in Europe where production costs are highest. "About 85 per cent of the world's smelters are losing money - that's terrible. And I fear the lights are going out in European smelters," says Mr Earl Wobbe, management board member responsible for production at VAW of Germany.

### Western world aluminium consumption

1992 end-use market: 20.5 million tonnes

Building & construction 21%

Transportation 24%

Electrical 10%

Other markets 23%

Containers & packaging 22%

Source: Alcan

Yet at the end of the 1980s the aluminium industry in the west seemed to be striding confidently down a road to increasing prosperity.

Demand for aluminium has been moving ahead by an average 3 per cent a year, with growth in all the main markets: construction, packaging, transportation (trains, aircraft and automobiles) and electricals.

The greatest potential for immediate growth is in packaging - aluminium is easy to sterilise for food and medical applications, it is an excellent barrier against liquids, vapours and light, it is non-toxic and imparts no taste or odour. In the US nearly every fizzy drink and beer can is made of aluminium.

Longer term there is potentially enormous growth to come from the use of much more aluminium in cars. The amount of the metal in the average car has doubled from 32kg (70lb) in the late 1970s to 68kg (150lb) and even the most conservative industry forecasts see it doubling again by 2010.

In the US this trend is being driven by ever-tightening fuel economy targets set by the government. Aluminium's light weight enables car makers to meet these targets without reducing the size of their vehicles. In Europe the move to aluminium has much to do with recycling - its relatively high value makes it the ideal recyclable material.

Recession in much of the industrialised world has restricted demand since 1990, but even so last year aluminium consumption in the west still rose 2.9 per cent to 15.4m tonnes. Spurred into action by this gap between supply and demand, producers since 1991 have permanently closed 420,000 tonnes of capacity and temporarily shut down another 1.5m tonnes.

Therefore the western market would have been in balance and ready to emerge from the recession from a strong base. But then came

an unexpected surge in imports of metal from the CIS, from 200,000 tonnes before 1990 to about 1m.

The availability of all this CIS metal testifies to the stark contrast in conditions in the former Soviet Union and western markets.

About half the aluminium produced in the CIS was delivered to military and aerospace customers. The unfreezing of the cold war has seen that particular demand virtually disappear. Mr Horst Peters, general manager, technology marketing at VAW, suggests aluminium consumption in Russia alone dropped from 2.6m tonnes in 1988 and 1.8m tonnes last year.

Shortages of aluminium developed in the republics because Russia and some other parts of the CIS can produce top-quality aluminium which is readily converted into dollars.

Some western observers were convinced that chaotic conditions and raw materials shortages would cut CIS aluminium output substantially last year. But international traders stepped in with barter deals to keep the industry going. For example, Mr Alan Bekhor, managing director of Trans-World Metals, says his company, which claims to be the biggest trader of CIS aluminium, helped "kick-start" production at two smelters by providing cash to improve the flow of alumina, an essential raw material. Trans-World also invested in port facilities in the far east of Siberia to bring alumina into the CIS and get aluminium out.

VAW's Mr Peters points out that the 'low technical standard at many CIS smelters - most of them use outdated Söderberg technology - enables their own workshops to make spare parts to keep the equipment operating.

Consequently, CIS aluminium production last year was fairly stable and, at 2.7m tonnes, only 10 per cent below the 2.9m tonnes achieved in 1988.

What does this add up to if the east and west industries are combined? It is clear that another 1.5m tonnes of production capacity - equivalent to six modern smelters - needs to be shut if supply is to be brought back into balance with demand.

The need for a structural change of this size was bound to create tension in the industry. This boiled over in August when the European Commission ruled that the very fast growth in aluminium imports from the CIS had caused "serious damage" to EC producers and it imposed some restrictions on imports.

This action was widely criticised because aluminium is a global commodity and CIS metal would simply be diverted from the EC to other markets, to be replaced in the EC with aluminium from other sources. But the Commission did not expect its restrictions to have much impact on the flow of aluminium round the world. Its move was a political gesture - one serious enough to bring the CIS producers to the negotiating table.

Neither did the Commission believe Europe should act in isolation. It always wanted other big aluminium producing countries to take part in discussions about the problems caused by CIS metal. It achieved these initial objectives and a series of multilateral discussions, involving CIS producers and trade representatives from the EC, Canada and the US, are to take place this autumn.

The EC has been emphasising at initial meetings with the CIS producers the two-way nature of its proposals. In exchange for some CIS export restraint, European producers would be willing to help modernise the CIS industry, to help launch new semi-fabricated and fabricated products to stimulate demand for aluminium in the republics and the Community might possibly find some cash to help this process.

Part of the Commission's explanation for restricting CIS imports (to 60,000 tonnes between August and the end of November) was: "Aluminium produced in the CIS enjoys the huge advantage of

artificially low energy prices and environmental standards that are far less strict than those in western countries."

Nobody disputes that environmental standards in most CIS smelters are appalling. If Russia's own regulations were imposed all its smelters would close down.

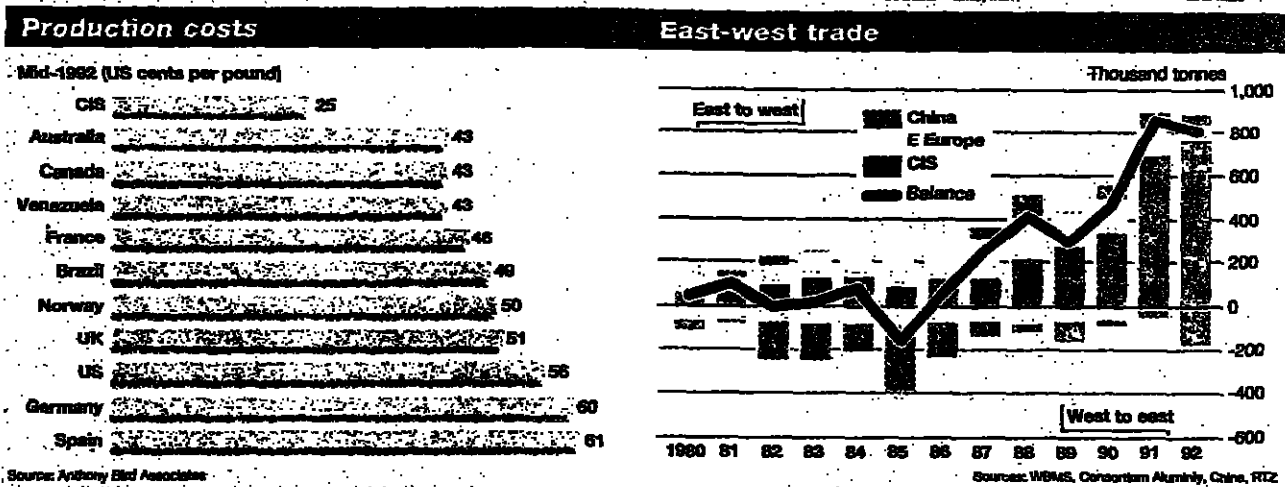
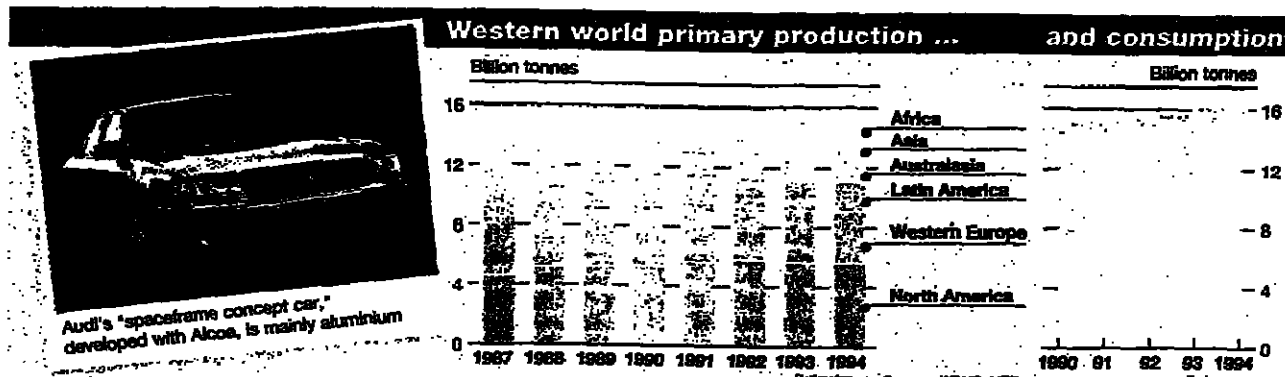
As for costs, the Russians claim they produce aluminium for about \$300 a tonne. But energy costs have been heavily subsidised and labour rates range from one US cent to two cents a lb - less than those in most developing countries.

Industry consultant Mr Anthony Bird estimated half way through 1992 that, aided by these "astonishingly low" input prices, CIS smelters

were producing aluminium for about 25 US cents a lb (about \$350 a tonne) - well below the 53.6 cents average for smelters in the rest of the world.

But the outlook for the CIS industry is changing. Under pressure from the International Monetary Fund the Russian government is trying to lift energy prices to the international level in stages. And, according to VAW's Mr Peters, an energy price increase the government has recently been attempting to impose would raise the operating costs of the republic's smelters to an average of \$1,200 a tonne, well above the recently-prevailing international price.

Continued on next page



## Next.

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## ALUMINIUM II

With western aid, the CIS keeps on smelting, says Kenneth Gooding

## Partners in grime

MR KARL Wobbe admits he seriously underestimated the ability of the Russian aluminium industry to keep production going against all the odds.

"At the beginning of 1992 I thought their industry would collapse because of raw materials shortages," he recalls. Instead, the Russian smelters managed to produce about 2.7m tonnes of aluminium last year, not too far away from the 1991 level.

Traders came to the rescue with barter deals, offering necessary raw materials in exchange for aluminium which poured into western markets at an annual rate of about 1m tonnes.

For example, Mr Alan Bekhor, managing director of Trans-World Metals, says his company, which claims to be the biggest trader of CIS aluminium, helped "kick-start" production at two smelters by providing cash to improve the flow of alumina, an essential raw material. Trans-World also invested in port facilities in the far east of Siberia.

The ability of the canny western traders to keep things moving when faced with a variety of obstacles - language barriers, political uncertainties, civil strife and the lack of legal protection and insurance commonly available in the west - is impressive.

There is also the problem of theft. "Whole rail cars are uncoupled at night and simply disappear. A train with five cars might arrive at its destination with only two," one trader reports. "And with something like the Trans-Siberian Railway, you have enormous, unpopulated distances involved. It is very easy to offload something, pay off the engineers and sell it privately."

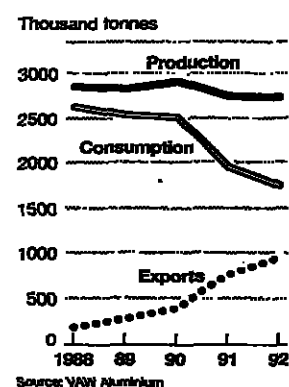
Shortages of spare parts, which weighed heavily on some other CIS industries, caused few problems. Ten of the 14 CIS smelters use outdated Söderberg technology and make their own spares when necessary. Ironically, the modern smelters were hit by spare parts shortages and Tajikistan's smelter had to reduce output by 40 per cent last year.

The influence of international traders on the CIS indus-

try is not entirely to the liking of Mr Wobbe, management board director responsible for aluminium production at VAW of Germany.

He says: "Traders are not the right partners for the Russian aluminium industry. It should be the western aluminium producers. Producers have the know-how to help develop the internal CIS market - for packaging, for transport, for construction. It will take a long time, but the best partners for

## Primary aluminium market in CIS



Source: VAW Aluminium

the Russians would be the western aluminium industry." He points out that, until demand for aluminium in the CIS domestic market is revitalised, the smelters will go on producing for export and those exports will continue to depress international prices.

Last year the CIS smelters delivered only 1.8m tonnes of aluminium to domestic customers, a sharp drop from the 2.6m in 1991. While chaotic conditions in the CIS and the virtual disappearance of military customers cut demand, the market could have taken more metal. The fish canning industries in Russia and the Ukraine complain that there is not enough available. Among other things, the metal is also used for canning caviar, one of the few Russian products that has instant appeal overseas.

Aluminium has that same appeal. Russia and some other parts of the CIS can produce top-quality aluminium - much of it used to go into military and aerospace equipment -

which is readily convertible into dollars.

Smelter managers prefer to export to earn dollars instead of being paid by domestic customers in rapidly depreciating roubles. Their smelters are not just making metal - they provide the sole support for whole communities, including schools and hospitals. Dollars earned provide food, medicine and school books, not just smelter equipment.

But the smelters are also tremendous polluters. If Russia actually enforced its environmental regulations, all its smelters would have to close. Yet the cost of moving to state-of-the-art smelting technology is prohibitive. VAW estimates that it would cost \$8bn to install modern technology in just four of the 14 CIS smelters. The money for that kind of project is simply not available.

However, another - much less costly - solution is emerging. Western companies have started to help the CIS industry to upgrade its old Söderberg smelters. For example, Kaiser Aluminium of the US is offering intermediate technology that costs only about \$600 per tonne of installed capacity.

Kaiser is working on a \$60m project at the Krasnoyarsk smelter, covering 90,000 tonnes of capacity, and Mr Sam Manaktala, director of technical services of Kaiser's primary products division, says this aims to reduce fluoride emissions from 6.7kg a tonne of metal produced to 1.2 kg and to cut carbon emissions from 6 kg a tonne to under 1 kg.

The government granted Krasnoyarsk an export licence so that it could export free of tariffs enough aluminium to cover the cost.

This project is scheduled to be completed in September next year. Kaiser also recently signed a protocol to carry out similar upgrading on one of the four production lines at the Irkutsk smelter in Siberia.

Only three years ago there were ambitious plans to build a 130,000 tonnes a year smelter on a greenfield site near the Irkutsk plant which would also be modernised. But this would have cost \$700m and Mr Manaktala says this project has

been shelved until metal prices have risen to a level to make it viable and until economic conditions in Russia would make it possible to raise capital.

Kaiser Engineers, the UK company which, confusingly, is no longer related to the US group but is part of ICF Kaiser, has been working on studies for the rehabilitation of smelters in Azerbaijan which use modern, pre-bake technology.

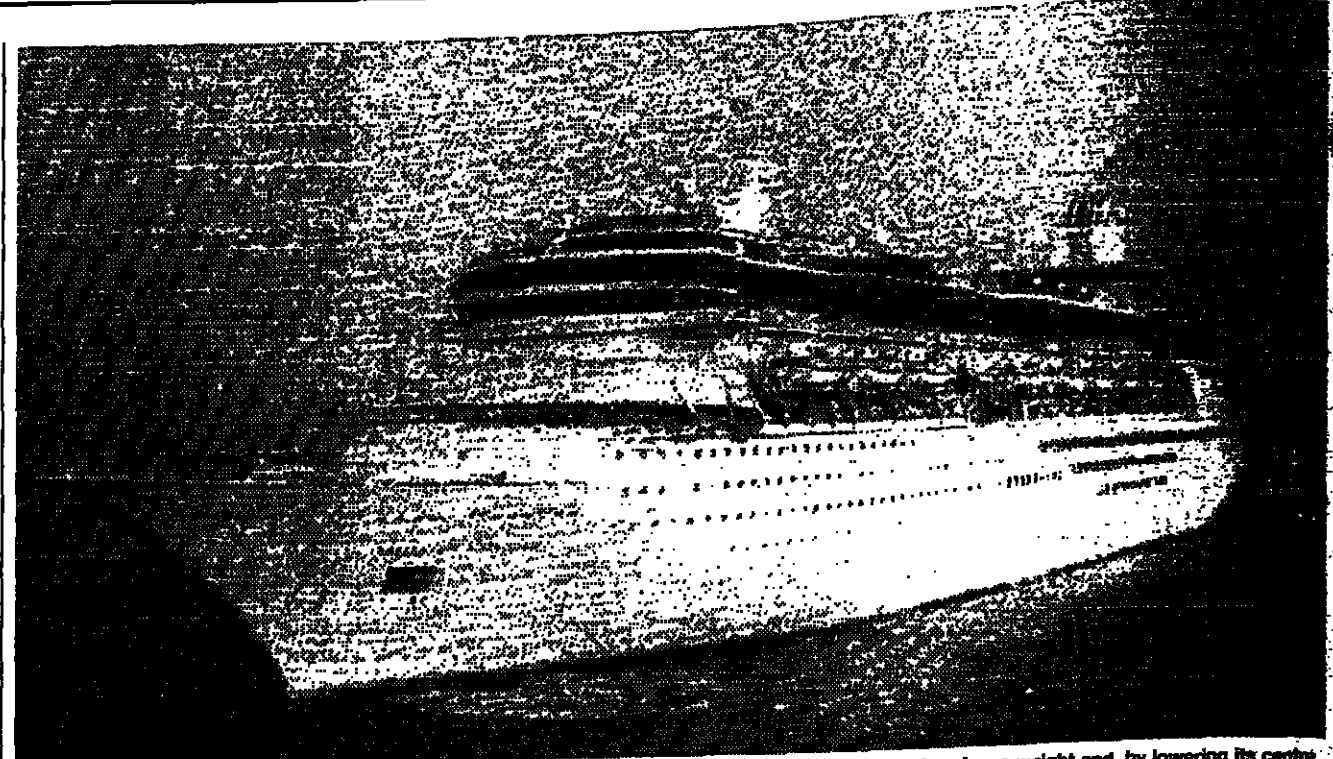
Reynolds Metals, another US company, also has well-tried technology for improving the performance of Söderberg smelters. This technology is being offered by the Kumera Corporation, a Finnish group, which has five separate projects under way. Mr Vesa Kumpulainen, Kumera's chief executive, says the Reynolds' technology not only cuts pollution substantially - at one smelter 20 kg of emissions a tonne would be reduced to only 2 kg - it also saves energy.

Reynolds itself is working with Fata, an Italian industrial group, and a Russian consortium on a downstream project to produce aluminium foil.

VAW, meanwhile, has forged what Mr Wobbe describes as "an excellent relationship" with the Novokuznetsk smelter in Siberia, "which we will modernise in steps". VAW is also attempting to set up joint ventures in the CIS to produce dedicated downstream products for dedicated markets. These products will have export potential because, as Mr Wobbe points out, the CIS industry still needs to export in order to earn hard currency for raw materials.

"We have to accept the Russian aluminium industry as an equal partner in the world industry, but this means it has to accept the rules of the free market," he says.

That will not be easy because there are political tensions between Concern Aluminium, the holding company for the CIS industry, and some smelter managers. But there have been recent signs that the CIS industry is willing to discuss with representatives of the European Community, the US and Canada some kind of international rationalisation of production capacity.



Majesty of the Sea, said to be the world's biggest passenger liner, has an aluminium superstructure which reduces weight and, by lowering its centre of gravity, increases stability. Launched at Saint Nazaire, France, last year, the 268 metre long vessel can carry up to 2,800 passengers and 830 crew

Stocks and output capacity remain too high, writes Richard Mooney

## Involuntary price restraint

ALUMINIUM STOCKS are too high. If producers are to receive better prices they must at least begin to fall.

There are two ways for that to be accomplished. Either consumption can increase faster than production, or production can be reduced to a lower level than consumption. All producers have been hoping for the former, and too many have been relying on others to achieve the latter.

After rising uninterrupted for 10 years, though more slowly over the past few years, consumption was barely changed between the first half of 1992 and the same period this year. But Anthony Bird Associates, a UK consultancy, described this in the July issue of its *Aluminium Analysis* as "a healthy performance". Bird found it "impressive enough that consumption should rise by 3 per cent in the very sluggish economic conditions of 1992". But the maintenance of this high level in early-1993, "when world industrial production actually contracted slightly", was, it said, "remarkable".

Bird put this down to aluminium's "excellent competitive position" against alternative materials. If measured at an index of 99, only just below the level in 1985, the base year, and 40 per cent better than in "the dangerous year of 1988".

Nevertheless, Bird saw the immediate outlook for consumption as weak and expected to see some decline in the second half of this year from the corresponding 1992 levels, "bringing consumption for the year down to around the 15.1m (tonnes) mark [from last year's 15.24m]".

Thereafter, however, it saw the omens as favourable: "a strong competitive position, economic recovery, and the prospect that the metal using industries will do better than the average". The upshot was that it expected consumption to be growing at 3.5 to 4 per cent a year from 1994 onwards and reaching 16.8m tonnes in 1996.

A similar picture was painted by Metal Bulletin

Research in its September 1 aluminium market update. It saw western world consumption growth picking up in 1994 to 3.8 per cent, with a slowdown to 1.5 per cent in the US being offset by gains of 4.2 per cent in Japan, fuelled by strong gains in the car and packaging sectors, 5.6 per cent in Asia and 4 per cent in western Europe, restrained by a more subdued recovery.

According to a third recent assessment, by The Spector Report of the US, western world aluminium shipments rose by 0.5 per cent in the first half of this year. It projected a 1 per cent rise for the second half, giving an advance for the year as a whole of about 0.8 per cent. But it estimated that a 4 per cent rise would be needed next year to get stocks falling and concluded that production cuts remained the only "quick fix" to the over-supply problem.

Most analysts agree that the gap to be bridged is now not that great. Spector calculated that production cuts this year by Aluminium Company of America (Alcoa) and Reynolds Metals, also of the US, amounting to an annual 356,000 tonnes, had left only 313,000 tonnes of surplus capacity.

Time is not on the industry's side, however. "Like interest on the national debt, each day's delay compounds the eventual solution," warned Spector. "In the case of the aluminium industry procrastination, it just adds to the amount of production that eventually has to be cut."

In its July analysis Bird was less gloomy than some about the gravity of the stocks problem. Excess stocks (over and above the "normal" level of about six weeks' consumption) amounted to about eight weeks' consumption, it calculated. That compared with 13 weeks' consumption in 1982, at the low point of aluminium's last big bear market. It put the current level of over-supply - including continuing large-scale shipments from the former Soviet block - higher than did Spector, at 500,000 tonnes a year.

"Nevertheless," said Bird,

"aluminium producers must face these short term difficulties before they can reach the - more promising - longer term." Bird found encouragement in the fact that exchange rate changes since 1992 had pushed American aluminium producers' average costs ahead of those of their counterparts in Europe, "where it is notoriously difficult to adapt the output of any factory to changing market conditions". With the Americans now in the costs hot seat it suggested that the aluminium industry could be expected to become "more responsive to excess stock levels than it has been in recent years".

It thus expected to see output cuts in the west, "especially in 1994", together with falling exports from the former Soviet Union, as its own aluminium using industries and those of its traditional customers became more buoyant. "If consumption recovers at the same time in the way we expect," said Bird, "there should be a deficit of over 750,000 tonnes in 1994 and more than 1m tonnes in 1995. Indeed as 1995 wears on producers will have to reconsider idled capacity."

Metal Bulletin Research agreed that world stocks would fall next year, though

by a more modest 525,000 tonnes, from the 3.5m tonnes it projected for the end of this year (against 3.61m tonnes indicated by the International Primary Aluminium Institute as at the end of August).

With no new plant start-ups scheduled for more than two years - assuming that the expansion of capacity from 173,000 tonnes to 646,000 tonnes a year at Alusaf of South Africa is completed on time in late 1995 or early 1996 - Bird saw the market becoming tight in early 1996.

"By then," it said, "the years of underinvestment in new smelter capacity will be taking their toll. Producers will have to work their existing plants very hard in order to keep up with demand; and they will be seeking to accelerate any tentative smelter projects they may have. In spite of these efforts we expect a period of aluminium shortage to return, accompanied by a significant rise in prices."

All that is in the future, however. For the present the aluminium market languishes, and if producers are to get something more than "jam tomorrow" (for the day after tomorrow) some will have to follow the lead given by Alcoa and Reynolds - and they need to look sharp about it.

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## Russia arrives

Contd. from previous page  
Smelters unable to cover their costs would quickly have to close because they could not pay for raw materials, he said. In any event, "cost pressures will force CIS smelters to modernise or to close".

Those cost pressures, particularly from rising energy prices, are also being felt in the west. It was only a matter of time before the high-cost smelters in central Europe shut permanently to leave the business to countries with low-cost and renewable hydro-electric power, such as Canada and Venezuela. The prolonged period of extremely low prices the industry is presently enduring is simply speeding up the process.

Low prices and the turmoil caused by CIS imports are also holding back investment in new smelter projects in the west. Banks would want to see the aluminium price at between \$1,600 and \$1,700 a tonne - nearly 50 per cent above recent depressed levels - before offering loans for new smelters, according to Mr Louis Vinciguerra, a general partner at Banque Rothschild in France. Only at that level would new smelters cover their full costs. He suggests that prices would return to the necessary levels if the industry - east and west - closed 1.5m tonnes of annual capacity. Eastern European producers should contribute to these cuts, he says. "They must learn that it is better to sell less aluminium at significantly higher prices."

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# ALUMINIUM III

David Blackwell looks at alloy trading on the LME

## Contract fights on

THE London Metal Exchange, through long experience, does not expect its new contracts to be welcomed with open arms. The aluminium alloy contract, launched just over a year ago, has proved no exception.

Argument raged around the industry for more than two years before the contract finally got off the ground. Its success is important to the exchange, which is constantly on the look-out for ways to expand its business and has run out of pure base metals. Leaving aside the high grade aluminium contract (which replaced the initial aluminium contract) and the relaunched tin contract, the alloy contract is the exchange's first new product for 13 years.

The LME has again found itself defending its product. As Mr Ralph Kestenbaum, LME vice-chairman, told *Metal Bulletin's* eighth international aluminium conference in Montreal last month, the two other contracts introduced on to the LME in the past 25 years - primary aluminium and nickel - were met with extreme hostility. In fact the leading producers tried to boycott the contract, which today provides the daily prices that govern the industry.

"If you look at the turnovers of primary aluminium and nickel today as compared with five, 10 and 20 years ago and if you look at metal stored in LME warehouses you can see that the growth is overwhelming," said Mr Kestenbaum.

Mr David King, chief executive of the LME, believes that the contract is gaining acceptance and has considerable potential.

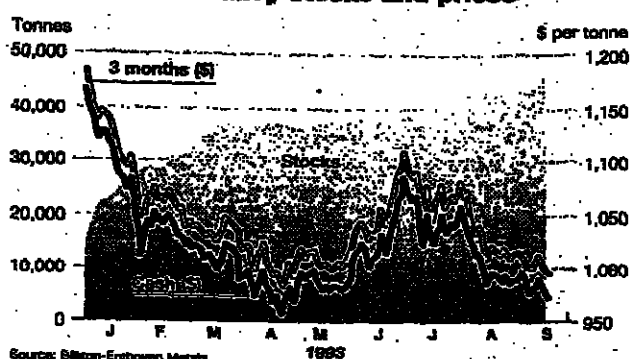
Three-month metal has been trading for about 10 months and turnover is significantly higher than we experienced when nickel and primary aluminium were introduced, he said.

Two years ago the chances of making the contract work were put at only 50-50 by some LME members. The Organisation of European Aluminium Smelters and the Japan Aluminium Alloy Refiners Association were against it.

But by launch time, the omens appeared good. Secondary aluminium smelters were losing money because of the poor state of the economy and they were pleased to let the LME have metal for ready cash. This was reflected in the rapid build-up of stocks in LME warehouses, which reached 15,000 tonnes at the beginning of the year and were approaching 40,000 tonnes by April. They now stand around 45,000 tonnes.

Secondary aluminium pro-

LME aluminium alloy stocks and prices



duction is about 4.5m tonnes a year mainly of automotive grade alloy. The motor industry uses more than 70 per cent of production. By the time of the contract launch 47 alloy brands had been registered by producers, between them accounting for about 2m tonnes a year output.

The contract specifies three grades for delivery - German DIN 226, Japanese AD12L, and US A380-L. These represent the basic or (in the words of one trader) "hog standard" die-casting specifications in Japan, Europe and the US, the three main consuming regions. Although the three chosen grades vary slightly they are designed for the same function - automotive die-casting - and consequently in practice there is little difference in their prices. The contract is in dollars, covers lots of 20 tonnes and can be traded 15 months forward.

Whatever the omens at the launch, the first year of trading has seen low volumes and featureless trading. This is not surprising given that the launch was made at the height of the recession.

There has also been no specific event to make the secondary price vary from the primary price. And the primary market has had a tough year as demand remained flat and production rose to the extent that primary stocks in LME warehouses burst through 2m tonnes in August.

"Some might take the view that it was launched at the wrong time," says Mr Angus MacMillan of Billiton-Enthoven Metals. "They are wrong. It's better to launch when prices are depressed than when the primary price is volatile - that would only have exacerbated any reluctance to use it. A slow work-in is probably better."

Even so, there are those in the industry who believe that the LME has listed too many alloys, making it more difficult to get a clear price. Mr Peter Nix, of the secondary ingot

producers association, believes a single alloy would lead to wider participation by the industry. "The 380 would be best to start with - that is the most universally used."

However, Mr MacMillan, says the LME would have been restricting itself unnecessarily in using only one specification. He also believes the LME would be foolish to start tampering with the contract now.

Mr King of the LME agrees: "We are more than satisfied with the current situation, but we will be putting more resources into educating the secondary aluminium market about the contract and the LME."

ALUMINIUM is the most modern of the leading industrial metals and its fortunes since it first came on the scene just over a century ago have always been linked with technical progress in the manufacturing industries.

But if technology has provided the aluminium makers with a seemingly endless stream of opportunities it has also, especially in recent years, thrown up a series of strong competitors. It is in meeting these challenges and in developing ways of extending its uses throughout the manufacturing sector that the future prosperity of the industry is seen to lie.

The latest challenge, which is threatening aluminium's share of the lucrative aerospace market, has come from so-called "composites", such as carbon-epoxy, in which carbon fibres are embedded in toughened resins. These provide a blend of strength and lightness exceeding those of the usual run of aluminium alloys, and nowhere is this quality more prized than in the aerospace industry.

As is usual with advances in aerospace materials the new composites have been taken up with the greatest enthusiasm in the defence sector. They also threaten to eat into aluminium's traditional dominance in the commercial aircraft sector - but not as deeply as had been expected.

A case in point is the 777 airliner being developed by Boeing. A year ago the company estimated that composites would account for about 10 per cent of the structural weight of the aircraft, chiefly through their use in the vertical and horizontal tails, the floor beams of the passenger cabin and the trailing edge flaps. That would have helped to cut aluminium's contribution to the weight of the airframe to 55-60 per cent, compared with 73-75 per cent in the Boeing 737 and 767. More recent

## NEW MATERIALS

## Rivals show their mettle

estimates suggest that aluminium will still contribute 67 per cent.

The aluminium producers are not taking even this more modest incursion into their territory lightly, however. New alloys, involving titanium and lithium (the lightest of all metals) among others, are being developed to achieve improved compression strength and corrosion resistance. And the industry has come up with its own "composites" in the form of structural laminates, such as Alcoa's "Aral" which combines aluminium with fibre-reinforced epoxy layers to cut weight and improve fatigue life and damage tolerance. Already Aral is being used in the cargo door of the McDonnell Douglas C-17 military transport.

Another composite, Duralcan MMC, an aluminium-based metal-ceramic material developed by Alcan of Canada, is expected to have important uses in aerospace, motor and energy. Alcan claims it is lighter and stronger than steel or titanium and can be made more corrosion-resistant.

In the electrical industry aluminium tends to be a challenger rather than a mere reactor to challenges.

Alcan of Canada, through its Alupower subsidiary, claims to be the leader in the field of aluminium-based electric power sources. These systems,

which offer much reduced volume and weight compared with conventional batteries, are making significant inroads into the markets for standby batteries for the telecommunications industry, propulsion power for underwater vehicles and range extenders for road vehicles - all areas where weight saving is at a premium.

The extended use of electricity for public transport is also providing opportunities for aluminium. Guide rails for rapid transport systems is one example, and higher up the technological ladder comes the construction of guideways for high-speed rail lines such as the Maglev (magnetic levitation) system used already at Orlando and Las Vegas in the US. Such systems are also obvious outlets for light aluminium rail cars.

The motor industry has traditionally used a lot of aluminium, but there is always room for progress. Amax has high hopes for its "semi-solid forging" (SSF) technology in this area. This uses specially processed aluminium billets for forging at one stroke into high quality car components needing little, if any, further finishing.

SSF also has possibilities in the aerospace sector, says Amax, and in the manufacture of domestic appliances. For most people the kitchen is the

place they are likely to come into contact with the greatest variety of aluminium uses - in cooking foil, food packaging, appliances such as refrigerators, cookers and food processors and, of course in the casing of the now ubiquitous microwave oven. The inside of the microwave is still widely regarded as a no-go area for aluminium, however, and that is something the producers of aluminium foil and containers are anxious to change.

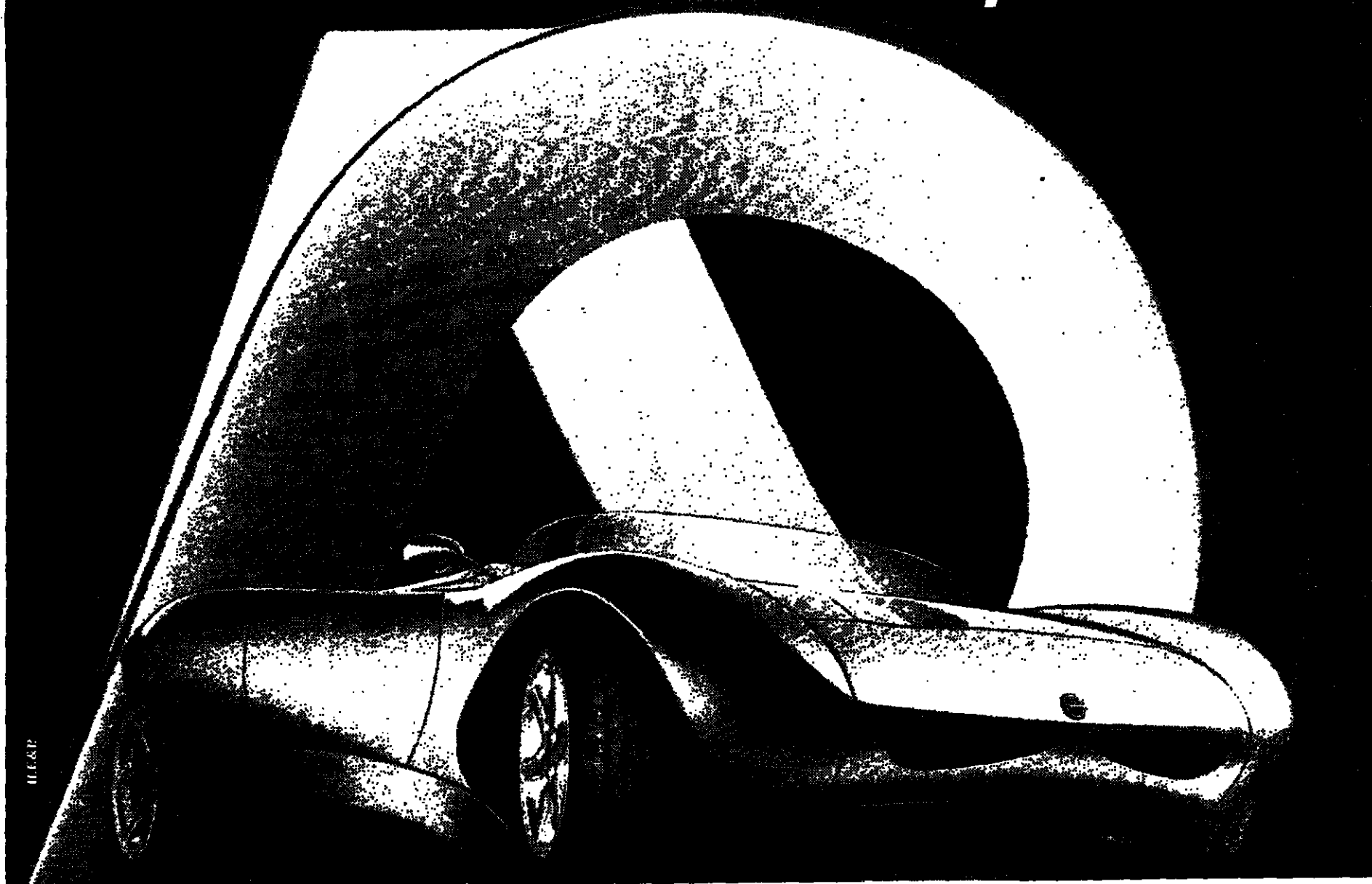
Early microwaves had glass-covered magnetrons, which could be damaged by energy waves reflected from metal, so the manufacturers warned against its use in them. Microwave technology has improved since then and the new protected ceramic magnetrons can cope with aluminium providing a few simple rules are followed - it is claimed, moreover, that in tests arcing is extremely rare even if the container is placed hard against the oven's wall.

Mr Nick Kendal, managing director of Alcan Ekco Packaging, says a growing number of manufacturers have been persuaded by test results that their initial strictures against the use of aluminium in their microwaves are out of date and have included instructions for the use of foil containers in later editions of their manuals.

At its Montreal headquarters Alcan has developed "Micromatch", an aluminium microwave tray allowing selective heating for the various components of a pre-prepared meal - even no heating at all for individual components, if required. That sort of advantage could help to overcome prejudice in the convenience food sector and once microwave meals are appearing in aluminium packaging on supermarket shelves the consumers' resistance will surely begin to evaporate.

Richard Mooney

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WESTERN WORLD SUPPLY/DEMAND  
BALANCE FOR ALUMINIUM (000 tonnes)

Consumption	1988	1989	1990	1991	1992	1993	1994
N. America	5036	4840	4717	4545	5063	5280	5360
W. Europe	4498	4353	4783	4840	4935	4816	5005
Asia	3511	3770	4148	4251	4154	4210	4445
L. America	744	783	731	761	714	753	805
Australasia	358	355	315	332	323	331	353
Africa	227	245	218	219	194	208	225
Western World	14384	14678	14980	14948	15383	15588	16193
% change	5.1	2.2	1.5	0.4	2.9	1.4	3.8
Production	1988	1989	1990	1991	1992	1993	1994
N. America	5479	5585	5816	5943	6014	5920	5825
L. America	1552	1697	1789	2000	1972	1950	1940
Europe	3808	3919	3925	3791	3447	3323	3272
Asia	1014	1106	1179	1288	1368	1552	1558
Australasia	1387	1499	1492	1487	1483	1615	1640
Africa	587	604	601	608	612	618	618
Western World	13848	14409	14803	15117	14896	14978	14883
% change	6.9	4.0	1.3	3.5	-1.5	0.5	0.0
Output capacity	1988	1989	1990	1991	1992	1993	1994
% utilisation	94.2	96.8	95.2	96.4	94.3	91.9	91.0
Net trade	1988	1989	1990	1991	1992	1993	1994
Surplus/deficit	-96	32	118	1089	464	330	-625
Stock levels	1988	1989	1990	1991	1992	1993	1994
Producers	1482	1576	1522	1754	1683		
LME, COMEX	137	58	311	987	1527		
Stocks*	1619	1834	1833	2741	3190	3520	2994
Weekly supply	5.9	5.8	6.4	9.5	10.8	11.7	9.8
Price (\$/tonne)	2593	1950	1517	1302	1254	1185	1340

\*end of period Source: WISM and IMA

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